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FROM SOCIALISM TO PERIPHERAL CAPITALISM:

THE POLITICAL ECONOMY OF THE DOUBLE TRANSITION IN SLOVENIA

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DU SOCIALISME AU CAPITALISME PÉRIPHÉRIQUE : L'ÉCONOMIE POLITIQUE DE LA DOUBLE TRANSITION EN SLOVÉNIE

IZ SOCIALIZMA V PERIFERNI KAPITALIZEM: POLITIČNA EKONOMIJA DVOJNE TRANZICIJE V SLOVENIJI

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SUMMARY

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ABBREVIATIONS

AbyD	Accumulation by Dispossession
AFTUS	Association of Free Trade Unions of Slovenia
ASYS	Alliance of Socialist Youth of Slovenia
BAMC	Bank Asset Management Company
BS	Bank of Slovenia
CCIS	Chamber of Commerce and Industry of Slovenia
CDHR	Committee for the Defence of Human Rights
CEE	Central and Eastern Europe
CEECs	Central-Eastern European countries
CIS	Commonwealth of Independent States
CME	Coordinated market economy
CMEA	Council for Mutual Economic Assistance
DG	Directorate General
DME	Dependent Market Economy
EAA	European Association Agreement
EC	European Commission
ECB	European Central Bank
ECLA	UN Economic Commission for Latin America
EEC	European Economic Community
EERP	European Economic Recovery Plan
EFSM	European Financial Stability Mechanism
EMU	Economic and Monetary Union
ERM	European Exchange Rate Mechanism
ESC	Economic and Social Council
ESM	European Stability Mechanism
EU	European Union
FDI	Foreign direct investments
FIEs	Foreign investment enterprises
GDP	Gross domestic product
GSP	Gross social product

IFDI	Inward Foreign Direct Investment
IMF	International Monetary Found
KC	Kraigher Commission
LCY	League of Communists of Yugoslavia
LDS	Liberal Democracy of Slovenia
LMBOs	Leveraged manager buyouts
LME	Liberal market economy
MEBOs	Management-employee buyouts
MNCs	Multinational corporations
NBY	National Bank of Yugoslavia
NEEG	New European Economic Governance
NIIP	Net International Investment Position
NKBM	Nova Kreditna Banka Maribor (New Credit Bank of Maribor)
NLB	Nova Ljubljanska Banka (New Bank of Ljubljana)
NPLs	Non-performing loans
OFDI	Outward Foreign Direct Investment
OMT	Outright Monetary Transactions
PSP	Positive Slovenia Party
SFRY	Socialist Federalist Republic of Yugoslavia
TSCG	Treaty on Stability, Coordination and Governance in the Economic and Monetary Union
UNECE	United Nation European Commission for Europe
VoC	Varieties of Capitalism
WB	World Bank
WCA	Washington Consensus Agenda
WST	World-System Theory

INTRODUCTION

As the first post-socialist Member state of the European Union (EU) that joined the Economic and Monetary Union (EMU) in 2007, Slovenia has been widely perceived as an exception among Central and Eastern Europe countries[1] (CEECs) for a long time. A relatively long period of macroeconomic prosperity shaped by average annual increases of GDP of almost 4.3% between 1993 and 2007 (Eurostat); a participatory and consensual policy-making embodied in neo-corporatist arrangements; a solid network of business and political elites that built on the Yugoslav heritage to enable domestic firms to become the first in the region to expand their activities abroad without undermining one of the most egalitarian societies in Europe – these were among the main factors that made Slovenia the biggest challenger to all TINA proponents in the region. In fact, one might even say that in a world of heightened competition pressures and the rise of Thatcherism-Reaganism, this young and small country, formally independent since 1992, with barely more than 2 million inhabitants and its modest contribution to the overall EU economic output of less than 0.3%, has continued to generate hopes that something like the *Trente Glorieuses*, this exceptional period where capitalist expansion seemed to be beneficial to all – capital, labour and the state – might still be possible to restore.

However, less than twenty years after the members of the League of Communists of Slovenia, renamed the Party of Democratic Reform, used the slogan *Europe now!* at the first multiparty parliamentary elections (Hayden 2013, 379), the drying up of the international financial markets and the breakdown of foreign demand unexpectedly brought to the surface the internal fissures of the Slovenian exceptional success story: with a GDP decreasing by almost 9% in 2009, Slovenia was hit the most among the Eurozone countries and experienced one of

[1] For the purpose of this thesis, the CEECs refers mainly to Slovenia and the four countries of the Visegrád group, i.e. Hungary, Slovakia, the Czech Republic and Poland, as well as to the three Baltic countries, i.e. Latvia, Lithuania and Estonia.

the deepest recessions at the European level in that early phase of the crisis (Eurostat). The crisis was long and painful. It was not before 2016 that the 2007 level of economic output was restored (OECD.Stat). In early 2013 the international press speculated that Slovenia would become "The next domino?" (The Economist 2013), i.e. a post-Cyprus member state of the European Union (EU) that would be obliged to resort to Troika assistance and to succumb to its harsh measures to stabilise the domestic banking sector. There was also a political meltdown that peaked in the interdiction of the popular vote against government measures by the Constitutional Court in 2012. Finally, with the at-risk-of-poverty rate[2] increasing by almost 3 percentage points between 2007 (11.5%) and 2015 (14.3%), Slovenia recorded one of the highest increases of poverty in the region, as well as at the European level (Eurostat).

Thus, with the outbreak of the global crisis, a country that likes to style itself as being at the "sunny side of the Alps" "experienced a significant fall from grace" (Lindstrom 2015, 131) with dark clouds starting to hang over the Slovenian presumably sunny post-socialist sky. Since "[w]e can understand what we see today only if we know how it looked yesterday and where it might be heading" (Streeck 2014, xi), this thesis proposes to resolve these puzzling developments by making an in-depth account of the political economy of Slovenia since the end of the 1980s up to the mid-2010s, i.e. a period shaped by, first, the disintegration of the federal unit of which Slovenia used to be a part, and then by the integration of the country into the European structures. Such a research endeavour is the first of its kind; whereas the country has enjoyed significant academic attention, so far no monographic work on its post-Yugoslav trajectory has been undertaken.

However, this thesis does not merely add a new, "Slovenian" piece that might expand the empirical mosaic of studies of capitalist diversity in the region. Rather, it offers an alternative framework through which the theorisation and understanding of the restoration of capitalism in the CEECs might be significantly revised. It is believed that only by following the call of Coates (2015, 24) that "[i]t is time […] to keep on moving left, fusing the best of the new institutionalism with the best of a reviving Marxism" one can make sense of the puzzling pre- and post-crisis developments in Slovenia. The alternative perspective is therefore drawn on and further refining of concepts from two classical debates within Marxism, the emergence of capitalism and imperialism. The concepts of neoliberal primitive accumulation and dependent development uniquely incorporate a distinctly interdependent nature of external and internal

[2] The cut-off point is at 60% of median equalised income after social transfers.

change in the CEECs and shed a new light on the role of the European integration project in this.

The main inspiration for such a research project came from the *Svetovno gospodarstvo and revolucionarna politika* (World economy and revolutionary politics), published more than a decade ago, just after Slovenia joined the EU (2004) and the NATO (2004). In this book, Rastko Močnik (2006) suggests that one should contextualise the restoration of capitalism in Slovenia and its participation in the European integration project within a broader processes of the neoliberal remaking of the world economy after the 1970s crisis. Claiming that "socialist state disintegrated […] so that the ruling classes could remain in power, but with the help of a different state" (Močnik 2006, 64), that "transition on the periphery [meant] 'modernisation' towards dependency" (Močnik 2006, 18) and that political elites have replaced the discourse on productivity with the discourse on competitiveness to legitimate the dismantlement of labour standards (Močnik 2006, 119), Močnik points to the main three nexuses that are studied and brought into historical interplay in this thesis, i.e. international integration, state transformation and working class restructuring.

The aim of this thesis is therefore twofold – empirical and theoretical: the thesis first seeks to displace the common wisdom on capitalist development in Slovenia as an exceptional success story, but also to contribute to contemporary studies that have already led to rethinking the Slovenian pre-crisis development strategy and associate weaknesses. At the same time, the thesis aims to open new theoretical perspectives in studying the development of peripheral capitalism in the post-socialist region at the European level. It is hoped that by demystifying the general trends and process of the neoliberal restructuring of the European economies in the specific trajectory of Slovenia and by going beyond formal institutional dynamics and GDP variables, an account of a specific historical trajectory of the "post-Yugoslav" Slovenian economy brings new insights into the post-socialist restoration of capitalism in the CEECs, as well as into the contemporary dynamics of the EU.

Dependent capitalist diversity in the CEECs and uneven development in Europe

The research topic of this thesis is at the crossroads of two sorts of debates, i.e. dependent capitalist diversity in the post-socialist region and the uneven development in Europe.

The epochal transformations from the turn of the 1990s, the ongoing waves of restructuring related to the integration in the EU and NATO turned the region into one of the laboratories for comparative studies of capitalism. During recent years, a new body of literature on political economy of the CEECs has started to emerge that severely challenges one or other stream of the varieties of capitalism approach proposed by Hall and Soskice (2001). These studies point towards the need to develop theoretical and methodological tools that would allow for both static and dynamic comparison, an in-depth understanding of complex politico-economic dynamics, as well as the role of international relations in the development of capitalism in a post-socialist region (Drahokoupil and Myant 2015). In fact, with the emergence of the global crisis and a downturn in the region, led by the three Baltic states whose GDP contracted on average by almost a fifth between 2007 and 2009 (OECD.Stat), and Hungary that was obliged to resort to the financial assistance of the International Monetary Fund (IMF)-European Commission (EC) as early as 2009, a new question came to dominate the research agenda among the scholars, e.g. the pattern of the insertion of national economies into international markets. Whereas dependent/peripheral character of growth regimes established in the CEECs has become widely acknowledged, various competitive theoretical frameworks have been proposed to capture the vulnerabilities of the developmental trajectories and their crisis exposure (Nölke and Vliegenthart 2009, Bruszt and Greskovits 2009, Vliegenthart 2010, Bluhm 2010, Lane 2010, Myant and Drahokoupil 2012, Bohle and Greskovits 2012, Hardy 2014).

In fact, the outbreak of the global crisis has brought the question of convergence and divergence of national economies at the European level into the academic spotlight. Heterogeneous manifestations of the crisis, with the southern Eurozone members and most of the post-socialist EU member states falling in a more or less deep depression, whereas Austria and Germany were almost unscathed by the crisis, have fuelled the expanding body of scholarship on the causes and factors of the European asymmetries and uneven development (Becker and Jäger 2012, Hall 2014, Streeck 2014, Nölke 2015, Stockhammer, Durand, and

List 2016, Jäger and Springler 2015). Whereas some argue that national trajectories tended to converge prior to the crisis, others point to the long-term diverging pattern of international development; whereas for some, the diverging trajectories have been mostly related to the (in)capacities of national institutional designs to cope with heightened competitive pressures, others instead point to the interdependencies of national accumulation regimes, conflictual constitution of domestic arrangements and increasing expansion of financial activities. Despite their differences, these studies point to the need to bring the European policy-making structures and regulations, embodied in the Single Market Act, the Maastricht Treaty, the Pact for Stability and Growth, as well as the New European Economic Governance, at the forefront in the analysis of the uneven development in Europe.

What this thesis aims to achieve is to push the intellectual realignment within the scholarship on political economy of capitalist diversity in the CEECs further left by moving from the institutionalist theory of capitalism to a theory of capitalist institutions and by renewing the twin concept of international dominance and dependency. Such a theoretical framework establishes a bridge with the current debate on the uneven development in Europe and allows us to further explore the mechanisms and modalities at work behind the formation of the European core-periphery divide(s).

Methodology and methods

The main epistemological and analytical presuppositions of this thesis are grounded in what can be defined as critical perspectives within comparative political economy on capitalism's variations through space and time (Ebenau, Bruff, and May 2015, 2). In a broader sense, according to Keucheyan (2014), contemporary critical thought refers to a geographically and disciplinarily vast field of scholarship that has experienced a significant revival in the last thirty years and that may not have associated itself directly with Marxist thinking. It shares a common refusal of contemporary social world, but this generality is variable and translated in more or less radical critical theoretical apparatuses, proposed to engage critically with capitalism. However, within the comparative political economy, critical scholarship is mainly rooted in Marxism (Ebenau, Bruff, and May 2015, 2).

The following sections explain the analytical steps undertaken in this thesis in order to come from a high level of abstraction to mid-range concepts that allow to grasp the differences in time and space without falling into traps of methodological determinism, nationalism, economicism and/or ahistoricism. General epistemological and methodological assumptions are explained in the first stage, followed by an outline of the proposed double transition approach.

Main epistemological and methodological underpinnings

Since on a very general level this thesis is about capitalism, it is worth starting with the clarification of the understanding of capitalism as such. The definition of Durand (2009, 15) is proposed: capitalism is defined as a historically established system based on dependency of actors on the market and a systemic constraint of the on-going accumulation of capital. The latter can assume different forms and has the capacity to increase its value during its transformations from one form to another. This capacity is related to a combination of three sorts of social relations that underpin the capitalist system and the extraction of surplus labour from labour power. First, social relations of private property that are based on a set of legal conditions and regulations and on the political protection by the state. Secondly, there are market relations that separate producers from the fruits of their labour within a given division of labour. The products are thus exchanged on the market against a specific commodity, e.g. money that allows for buying of other products. Finally, wage relation refers to the separation the immediate producer from the means of production; thus, the former is obliged to subordinate itself to the authority of capitalists and to exchange its labour power for monetary compensation, e.g. wages. This class antagonism is one of the founding contradictions of capitalism that, along other contradictions, explains its conflictual and crisis-prone character.

Whereas these features are seen as the main structural pillars of the capitalist system, they are not able to explain a historically developed institutional diversity of different national (capitalist) economies. To do this, one should move from a greater to a lesser degree of abstraction and start by unpacking the relationships between institutions, markets and the economy as a specific sphere of social life. On the horizon of a critical scholarship, capitalism is not merely an institutionalised order where markets would represent one type of institution among others that should be regulated. Markets as such did exist in pre-capitalist societies but remained external to the principles that determined the reproduction of social and economic life. In capitalism, the market assumes a dominant – but not exclusive – role in material and social reproduction and impacts all spheres of social life. That means that the economic, political and social spheres are considered as historically interdependent and internally intertwined aspects of social reproduction (Westra 2015, 15).

Since in capitalism direct physical violence is not anymore the prime mechanism of the appropriation of surplus and the maintaining of class dominance, there exists a formal separation between politics and economy that allows the state to achieve a certain level of autonomy (Hirsch and Kannankulam 2010). Although the state is by the virtue of its structures an integral part of capitalist relations and production, it is not an instrument of ruling economic class nor is it the result of some rational purpose – instead, the state should be seen as the institutionalisation of competing and antagonist class relations (Poulantzas 2000, 123-39).

On a general level, states attempt to manage the inherently crisis-prone process of capitalist accumulation, i.e. they provide institutional conditions that secure economic expansion, as well as legitimise the power structures and relations integral to capitalist development. To do this, states can rely on their monopoly of legitimate violence to impose rules on social actors which can go against the interest of an "abstract" or specific factions of capital. Yet, states do not act in isolation but interact in a hierarchically organised world market. "The state institutions' function of reproducing the characteristic social relations of capitalism has become one of manoeuvring among the shoals of domestic-international interdependence" (Cocks 1980, 12). One aspect of this manoeuvring is the changing political scales of territorialisation of institutional frameworks that regulate the process of accumulation, both bellow and above state level. Those changes are more likely to take place in times of crisis when the key problems of politically constituted accumulation of capital, i.e. securing the economic expansion and the political legitimacy of class-power relations and structures, come to the forefront. This thesis is especially concerned with political integration at the European level and proposes to renew the historical-materialist understanding of the European integration project proposed by Cocks (1980, see Section 3.2).

To understand how distinct modes of global insertion influence multiple modes of interaction between actors and institutions inside and outside formally national territories, the thesis builds on the dependency school authors and their power-relational understanding of the "internal" and "external". International conjuncture and structures, as well as the mode of insertion in world markets, play a constitutive role for the specific economic, social and political configurations. They represent additional sources of constraining and enabling factors that shape not only domestic economic structures but also the capacities of various actors to influence the domestic class-power balance and institutionalised compromises. The international realm is thus in a way incorporated into the domestic one, and vice versa. Developments at the national level shape international structures and relations, although in an uneven way, depending on economic and political power of states (Cardoso and Faletto 1979, Arinci, Pessina, and Ebenau 2015).

By drawing on the dependency school authors, the thesis shares the endeavours of scholars that have used this school to examine the asymmetrical interaction of European economies (Vliegenthart 2010, Becker, Jäger, and Weissenbacher 2015). It also follows their reframing of the core-periphery concept to capture the international relations of dominance and dependency in the European politico-economic space.

Note that such an understanding of international relations implies that when speaking about the development of peripheral capitalism (in Slovenia), "peripheral" does not mean simply that domestic economic structures and production are dependent on external capital and demand; it is more broadly conceived and implies that structures, processes and social struggles, particular to a given dependent economy are much more constrained by external, political and economic parameters, compared to dominant economies.

General approach

After this exposition of main assumptions, it is possible to outline the approach adopted in the thesis. Since the latter seeks to understand how conflictual political and economic dynamics, particular to the Slovenian economy, shaped the form of domestic development and its participation in the making of the European core-periphery divide, a historical, structural, holist and relational approach is adopted here that is attentive to the conflictual character of institutional change. Following dependency school authors, a structural and holistic approach implies that the analysis of specific institutional configurations and socio-economic structures of the national economy is framed within broader historical trends and processes that shape the uneven development of the world economy (Cardoso 2009, Cardoso and Faletto 1979, Ebenau 2015). The relational approach adopted in this thesis is, in fact, very much inspired by Jessop (2015, 67), that insists on the strategic dimension in the interaction of actors and institutions. In this strategic-relational approach, "structure consists in differential constraints and opportunities associated with specific social relations and their emergent properties that vary by agency; agency in turn involves the differential deployment of strategic capacities that vary by structure as well as the actors involved" (Jessop 2015, 67). With respect to institutional change on a very concrete level, this thesis follows a neorealist approach proposed by Amable and Palombarini (2009). Considering institutions as inherently unstable and as results of socio-political compromises, this approach links institutional change to political change and analyses how the formation of social alliances and the establishment of dominant social bloc – or its disintegration – influence institutional dynamics and the hierarchy among the institutions.

With respect to the present research project, such a composed approach demands, first, that analysis of the development of the Slovenian economy should be contextualised within the socio-historical conditions and processes that have shaped the contemporary global economy. Then there should be an account of how the specific development trajectory of Slovenia has been related to changing forms of state-capital-labour relations and structures that are particular to the Slovenian economy, the power balance between social forces, and the uneven capacities of various social forces and groups of actors to influence the state's interventions and institutional arrangements.

A double transition approach, neoliberal primitive accumulation and dependent integration

With respect to the development of capitalism in Slovenia, the thesis proposes a novel, so-called double post-socialist transition approach that ought to be explained here. This approach consists of five conceptual and analytical elements: (1) a presupposition that the socialist system in Yugoslavia was a form of non-capitalist system; (2) a Marxist-inspired concept of transition; (3) an analytical distinction between "internal" and "external" levels in the development of post-socialist capitalism; (4) two concepts: neoliberal primitive accumulation and dependent integration; (5) the reconstruction of the analytical space and time.

As far as the main assumption is concerned, the character of socialist systems established in the 20th century is still a subject of fierce academic debate, including among Marxist scholars (see for instance contrasting views in Samary 2004, Lane 2010, Lebowitz 2012, Selwyn 2014, Samary 2017). To what extent did so-called actual existing socialisms represent a system antagonistic to capitalism? Did the former simply represent a particular political form of capitalism, the so-called state capitalism? As far as the discussion in this thesis is concerned, it is proposed to set this debate aside and to problematise dissenting points of view in a subsequent study in order to focus on the issues at stake behind the development of capitalism in Slovenia after the fall of the Berlin Wall. This thesis builds on a presupposition that the socio-economic system established in Yugoslavia was a non-capitalist one. Note that this is an instrumental, analytical decision to better grasp the logic and socio-political content that have shaped the process of the post-socialist transformation in Slovenia. It is also assumed that this transformation from socialism to capitalism was a process similar to the one that Europe experienced during the dissolution of feudalism and the emergence of capitalism.

Thus, the thesis proposes to renew the concept of transition, and to situate it in class-based perspective. Echoing the debate among the Russian revolutionaries from the 1920s over the method and pace of change to socialism, two opposing concepts have prevailed in the literature on the inverse change from socialism to capitalism, i.e. transition and transformation. The first has been mostly associated with the teleological transition doctrine adopted by the main international organisations (the IMF, the World Bank, the OECD, the EBRD, the US Treasury), as well as by many governments in leading capitalist economies and the European community. Post-socialist change has been considered as a *transition* between two stages, i.e. (inefficient and repressive) socialist economy and (efficient and liberal) market economy that can be most effectively realised by a rapid and simultaneous implementation of stabilisation, privatisation and liberalisation (see also Section 2.2.3). Despite various influences, the transition doctrine has been grounded in the neoclassical economic theory and its assumptions of individual rationality, equilibrium state, and efficiency and optimality of free markets. In this perspective, the state has been reduced to the guarantor of the legal framework that secures private property claims and economic activities (Andreff 2007, 14-15, Chavance 2011).

This finalist and big-bang vision has been strongly opposed by an internally heterogeneous and multidisciplinary group of scholars that have shared a refusal to downplay historical conditions, an institutional understanding of the market and, therefore, highlighted the crucial role of state in the process of post-socialist change. In this perspective, markets represent a composite institution where actors are coordinated by a complex institutional framework that are ultimately regulated by states. In terms of political agenda, these scholars have pointed to the necessity to consider past legacies, warned against the dangers of voluntarist upheavals, and generally called for gradual change in line with domestic institutional particularities. Post-socialist change has been understood as a process taking place in a historical time and subject to circular and cumulative causalities, unforeseen developments, etc., which all imply a significant degree of variety of the concrete trajectories of national economies. For this reasons, the notion of transition has been replaced with the concept of *post-socialist transformation(s)* (Andreff 2007, 14-15, Chavance 2011).

This thesis, however, follows Shields (2012) that takes distance from this alternative concept. Despite conceived as an alternative to standard teleological view the concept of transformation presupposes, argues Shields (2012, 129), that “the processes at play in [the CEECs] will succeed and come to an end at some point when [the CEECs] ste[p] into the bright future of the European political economy. Such a claim is in danger of ignoring the centrality of the revivification of capitalist social relations since 1989. Transition in its bluntest formulation is precisely about capitalist restructuring.”

Presupposing that the post-war Yugoslav system was a non-capitalist one, this thesis proposes to bring the concept of transition back into the analysis of development of post-socialist capitalism and to ground it on a historical, conflictual, relational and class-based reinterpretation of Marx's work, especially his analysis of the emergence of capitalism in feudal England. This thesis, therefore, shares the opinion of those who consider Marx’s work as theoretically unfinished and whose internal contradictions allow for several interpretations (Kouvelakis 2007, 25). The post-socialist transition is thus understood as a process driven by domestic class struggles and co-determined by the remaking of international division of labour, which implies the establishment of a new, capitalist system with its own structural features and consequent integration in the global division of labour.

In line with the above-mentioned understanding of the internal-external dynamics, post-socialist transition is seen as a process of a double change that took place on internal and external levels. For analytical reasons, in this thesis the "internal" refers mostly to the refunding of state apparatuses and the "external" to the change in the form of integration in world market. These processes have overlapped and have been interdependent in a concrete socio-historical development; nevertheless, it is proposed to conceive them separately in order to better grasp the mechanisms and underlying logic that have shaped the development of capitalism in Slovenia. Two main concepts are operationalised in order to analyse the post-socialist double transition, i.e. neoliberal primitive accumulation and dependent integration.

Finally, the proposed understanding of post-socialist transition as a historically and globally constituted process of systemic change also requires the reconstruction of the analytical space-time. The latter has gained both in its depth and reach since the development of capitalism in Slovenia is studied in a sequence of historical developments that transcend formal structures of the Slovenian territory and/or of the European politico-economic space. In the concrete analysis, such a reconstruction of analytical time-space span implies that the post-socialist transition in Slovenia is studied at the background of the neoliberal reconstructing of global economy and that the developments taking place during the 1980s debt crisis of Yugoslavia are as important as those that shaped the post-1990 transition in Slovenia.

Methods

This study relies both on qualitative analysis and descriptive statistics. The former includes an in-depth historical research based on the existing scientific literature, official documents and reports of various institutional representatives of the Slovenian state and international organisations, as well as on the articles from daily press. This analysis is complemented with the use of statistical resources from the following data bases: European statistics database (Eurostat), the Statistical office of the Republic of Slovenia (SI-STAT), the statistical database of the Organisation for Economic Co-operation and Development (OECD.Stat), the data centre of the United Nations Conference on Trade and Development (UNCTAD.Stat) and World Development Indicators provided by the World Bank (WDI). The reports of the

Institute of Macroeconomic Analysis and Development (IMAD) of the Republic of Slovenia are also used as sources of statistical data.

Structure

The thesis is divided into six chapters. The first three are theoretical and the remaining three operationalise the proposed theoretical framework in the historical analysis of the development of the Slovenian economy since the 1980s.

The thesis starts with the discussion of the analysis of the development of post-socialist economies inspired by the Varieties of Capitalism (VoC) approach, proposed by Hall and Soskice. Although this approach is currently starting to lose its central position in the scholarship on the political economy of the CEECs, studying capitalist diversity through the focus on institutions has continued to remain the dominant research agenda. The exploration of the eastward globalisation of the VoC allows for the discussion of the contributions and the shortcomings of the institutional analysis, as well as for opening research avenues for an alternative theoretical framework.

The proposed theoretical framework consists of the two main concepts that are elaborated in the second and third chapter and that aim to grasp a double change that has shaped the post-socialist transition and that took place on the systemic level and on the level of the international integration of post-socialist economies. To grasp the emergence of the system of capitalist private property structures and relations in a post-socialist region the concept of neoliberal primitive accumulation is introduced on the basis of the examination of the Marxist-inspired analysis on past and present practices of primitive accumulation. With respect to the re-integration of the post-socialist economies in the world market, chapter three elaborates the concept of dependent integration, combining insights from the dependency school authors and the critical scholarship on the European integration project.

The historical study on the development of peripheral capitalism in Slovenia is divided in three periods, the demise of Yugoslavia through the neoliberal primitive accumulation (1979–1989); the integration of Slovenia in the EU/EMU regime (1990–2007); and the unfolding of the Slovenian Eurozone crisis (2008–2015).

Chapter four contextualises the emergence of capitalist institutions in Slovenia within the Yugoslav 1980s debt crisis. The remodelling of Yugoslavia under the Washington Consensus is studied first: this section highlights the role of internal and external policy makers in the neoliberal primitive accumulation and discusses the systemic change on three levels: industrial relations, the banking sector and developmental protectionism. The second section studies the impact of the dominant debt repayment policies on domestic socio-political dynamics and explores to what extent the intensification of class tensions fuelled the instauration of the capitalist private property regime and the disintegration of the Yugoslav state.

The main outcome of the neoliberal primitive accumulation in Yugoslavia was to "inject" on the world market a new territory of capitalist private property regime regulated by the newly established Slovenian state. Chapter five explores how further development of capitalism in Slovenia was interconnected with the process of the deepening of political and economic dependency of the country on the European political and economic structures. The capitalist state re-building under the integration in the EU/EMU regime is studied first, with a focus on the interplay between the changing class-power balance, the hierarchy of the Slovenian neo-corporatist apparatuses and the uneven transfer of policy–making to the European level. The second section explores how the European provisions of full blown liberalisation of trade and capital flows, as well as of a strict enforcement of competition policy deepened the dependency of the Slovenian economy in the European economic space along three channels, i.e. the international flow of commodities (trade), productive capital and money capital. The last section brings these two aspects of the Slovenian post-socialist transition together to discuss the weaknesses of the constituted form of development, shaped by a combination of export-led and jobless industrialisation and dependent financialisation.

The discussion on Slovenia's integration in the EU/EMU structures shows that by the late 2000s Slovenian state regulations and economic structures were so deeply integrated, rescaled and unevenly remade by the EMU structures that any notion that refers to something as being "Slovenian" should be approached with caution. This is also why the manifestation of the post-2007/08 crisis in Slovenia is called the "Slovenian Eurozone crisis", which is explored in three steps in the final chapter. The first section discusses the impact of the dysfunctional nature of EMU regulations and European crisis policy-making on the form of the crisis in Slovenia, shaped by the double-dip recession and the interaction of the initial meltdown in the industrial and construction sector with the emergence of the banking crisis and the crisis of sovereign debt. The second section focuses on the authoritarian policy-making during the crisis and a further remaking of the neo-corporatist institutions in line with the principles of price competitiveness and financial stability. The last section explores the regressive logic of the socio-economic restructuring since the late 2010s: despite a significant wave of political, economic and social reforms, all essential mechanisms that underpinned the development of peripheral capitalism in Slovenia remained unchanged.

In all three chapters of the historical analysis, attention is paid to discuss the changes on the level of "internal" socio-economic (and political) structures and international integration separately. As the studied periods bring forward different dimensions of the development of peripheral capitalism in Slovenia, some sections focus more on the internal or the external dimension than others. The three chapters are constructed as a whole where the analyses of both levels are intertwined constantly and where the study of economic developments is complemented with the analysis of conflictual socio-political dynamics and related institutional changes.

It is believed that such a structure suits the twofold aim of the thesis best. The theoretical discussion takes insights from the stimulating debate that flourished around the VoC approach and its eastward expansion as entering points to build an alternative theoretical framework on the double transition in the post-socialist region. Throughout a three-step analysis of the historical trajectory of the Slovenian economy, the proposed framework is sent on its first test as are the prevailing studies of the development of capitalism in Slovenia. Approached through a class-relational-global prism of primitive accumulation and dependent integration, the Slovenian path from socialism to peripheral capitalism appears much less exceptional and its political economy of the post-socialist transition even more unique.

1. VARIETIES OF CAPITALISM GO EASTWARD

Introduction

The comparative political economy has a longstanding tradition in the social sciences and has been, since its very inception, grounded in multidisciplinary grounds. Its specific research agenda, however, has differed much: traditional scholarship, such as Marx, Durkheim, and Weber, was concerned with defining the unique character and systemic features of capitalism as such; during the post-war period studies focused on comparing capitalism with its historical other, i.e. socialist systems. At the same time, with the outbreak of the world crisis of the 1970s, scholars renewed their interest in studying the evolution of the national arrangements that underpinned capitalist development over time and across cases (Bohle and Greskovits 2009, 355-56). The fall of the Berlin Wall, however, marked a new turning point in what has by now come to be known as comparative capitalisms literature (Ebenau, Bruff, and May 2015), defined as "a body of knowledge comprised of contributions which take institutions as their starting point when considering the evolution of national political economies" (Bruff 2011, 482).

With respect to the post-socialist region, the new research agenda was initially most clearly spelled out by neo-classical sociologists (Burawoy 2001). They were part of an increasing group of scholars from various disciplinary fields that were critical towards the dominant transitology and highlighted the central role of institutions and their cross-country differences (Chavance 2011, Shields 2012, 23-31). With the launch of the Varieties of Capitalism (VoC) approach, the research agenda of comparing capitalism with capitalism consolidated during the 2000s (Shields 2012, 28). Introduced in a period when economic prosperity and rising living standards among post-socialist countries became rather the norm than an exception (cf. Bohle and Greskovits 2012, 5) and when the integration of those countries into the EU marked a formal end of their transition, the VoC approach provided a powerful analytical toolkit for all those that wanted to counter the “resistible learning process” (Chavance 2011) of the teleological transitology paradigm.

Nowadays, there is a relatively widespread consensus that the analytical appeal of the initial VoC approach, designed by Hall and Soskice (2001), has been eroding, including among the scholars interested in capitalist diversity in the CEECs (Drahokoupil and Myant 2015, Ebenau, Bruff, and May 2015). However, a long-standing dominance of this framework among comparative scholarship and the fact that it continues to be one of the key references (Coates 2015, 22) point to the necessity of considering these studies. Crucially, the initial VoC approach has stimulated a vibrant multidisciplinary debate over the appropriate analytical and theoretical tools in studying institutional change(s) in the post-socialist region (cf. Bruff and Horn 2012, 162). Exploring the original framework and the criticisms addressed to it might, therefore, indicate analytical avenues and elements for the elaboration of an alternative framework on the development of capitalism in the CEECs.

This chapter is structured in two parts: the first one examines the application of the initial VoC approach on the CEECs and the second one explores the institutionalist debate that this “eastward” expansion of the VoC has stimulated.

1.1. Varieties of post-socialist capitalism

The VoC approach emerged as a part of an expanding CCs corpus of literature that consolidated during the 1990s with the so-called globalisation debate (Bohle and Greskovits 2009, 357): in addition to the collapse of socialist regimes, the 1997 financial crisis in Asia and the relative economic stability in the leading states of the world reframed the dominant debate within comparative political economy away from politics and systems towards markets and companies. The central question has become one of understanding the influence of contemporary globalisation on the development of national institutions, economic growth strategies, and the consequent performance of different political economies. This section first explores the analytical sources that enabled the VoC approach to become the dominant analytical toolkit among the scholars on the political economy of the CEECs. Then, the operationalisation of this approach in the case of the Slovenian economy is studied.

1.1.1. Elaborating an alternative to the neoclassical paradigm

In contrast to the neoclassical paradigm, which considers non-market institutions as a hindrance to the perfect functioning of markets and which reduce the state's role in sustaining markets, the VoC approach views the economy as being socially embedded and shaped by institutional contexts. Hall and Soskice (2001, 2-3) drew their inspiration from three different sources, e.g. modernisation approach, neo-corporatism literature, and the so-called social systems of production approach.

1.1.1.1. Institutional embeddedness of economy

Drawing from the modernisation approach Hall and Soskice primarily identify the importance of the strategic capacities of the state to intervene in the economy and to shape the particular development of industry or industrial sectors. Shonfield's study Modern Capitalism (1965) set the main lines of this approach "saw the principal challenge confronting the developed economies as one of modernising industries still dominated by pre-war practices to secure high rates of national growth" (Hall and Soskice 2001, 2). By acknowledging that the type or the mode of state intervention and regulation depend on the particular institutional and historically developed configurations, the VoC approach also surpasses a linear vision of the development of capitalism, highlighting the study of different national models and national trajectories instead (Jackson and Deeg 2006, 8).

The second perspective to which Hall and Soskice (2001, 3) refer are the 1970s' studies on neo-corporatism, which dealt with various state strategies and capacities to deal with increasing problems of unemployment and inflation. By emphasising the role of trade unions and collective wage-bargaining institutions, the scholarship on neo-corporatism expanded the then-existing emphasis on comparative approaches, which at that time tended to focus mainly on the state and the organisation of production and financial institutions. For Jackson and Deeg (2006, 10), "[t]he neo-corporatist emphasis on the structure and nature of a nation's labour movement and collective bargaining system provided the [Comparative Capitalisms] literature with an initial understanding of how the industrial relations system interacts with other institutional features of a national political economy".

Finally, Hall and Soskice (2001, 4) also draw inspiration from the literature on sectorial governance, innovation systems, and flexible production regimes that emerged during the 1980s and the 1990s. Those analyses explored the change from post-war mass production systems to new models of organising production, based on external institutional frameworks.

In sum, the approach elaborated by Hall and Soskice (2001) is grounded on three analytical premises that make it possible to stray from the neoclassical understanding of the economy. First, there is the Weberian understanding of an economy as a specific type of social action that demands institutional coordination and arrangements. Economy is seen as socially framed clusters of institutions that are functionally interdependent yet complement each other. The efficiency of one institution is determined by institutions in other domains, whereas the character of established links between different areas of the economy led to specific configurations of national capitalism. Finally, national "models of capitalism" are relatively stable; even if tensions may emerge when institutions follow different logical premises, institutional interdependence and institutional "embeddedness" secure the stability of the overall institutional design (Jackson and Deeg 2006, 11-12).

1.1.1.2. Contemporary globalisation and Varieties of capitalism

Departing from these pillars of comparative capitalisms literature, the analytical project of Hall and Soskice in their Varieties of capitalism: The Institutional Foundation of Comparative Advantage (2001) aims to overcome the mentioned accounts in three aspects. First, it seeks to place firms at the centre of comparative capitalism studies: “some versions of the modernisation approach tend to overstate what governments can accomplish, especially in the context of economic openness where adjustment is firmly led […] neo-corporatist […] emphasis on the trade unions underplays the role that firms and employer organisations play in the coordination of the economy” (Hall and Soskice 2001, 4). The understanding of firm behaviour as a crucial variable in the differentiation of national economies goes hand in hand with the premise “that many of the most important institutional structures – notably systems of labour market regulation, of education and training, and of corporate governance – depend on the presence of regulatory regimes that are the preserve of the nation-state” (Hall and Soskice 2001, 4). However, it is in their conceptualisation of the relations between the institutions of the national economy and economic behaviour that Hall and Soskice (2001) depart most radically from the approaches mentioned above. “The importance of strategic interactions is increasingly appreciated by economists but still neglected in studies of comparative capitalism […] we construe the key relationships in the political economy in game-theoretic terms and focus on the kind of institutions that alter the outcomes of strategic interactions” (Hall and Soskice 2001, 5).

Therefore, building on the sociological understanding of economy as a socially embedded cluster of institutions and methodological individualism of neoclassical microeconomics, Hall and Soskice (2001) adopt a relational view on firms and consider that a firm's “success depends substantially on its ability to coordinate effectively with a wide range of actors” (Hall and Soskice 2001, 6). The relations with five institutional spheres are taken into account: the financial system or market for corporate governance, the internal structures of the firm, industrial relations, education and training system, inter-company relations, etc. Based on the predominant way that firms and other actors in capitalist economies co-ordinate their endeavours, national clusters are classified into identifiable groups. Hall and Soskice propose two ideal-type models of national economies that are distinguished by the extent to which companies rely mainly on so-called strategic or market modes of coordination.

In the liberal market economy (LME) model, mostly represented by the US, Australia, Britain, New Zealand, and Canada, enterprises coordinate their activities on the basis of competitive markets, "characterised by the arms' length exchange of goods or services in a context of competition and formal contracting" (Hall and Soskice 2001, 8). In contrast, in the coordinated market economy (CME) model, most clearly represented by Germany, Japan, Austria, and the Netherlands, firms rely mainly on non-market coordination characterised by collaboration and strategic interactions (Hall and Soskice 2001, 14-15, 18-19). Crucially, despite institutional differences, “both liberal and coordinated market economies seem capable of providing satisfactory levels of long-run economic performance” (Hall and Soskice 2001, 21). The institutional infrastructure of a given political economy endows firms with specific support, allowing them to produce certain kinds of goods and services more efficiently than others (Hall and Soskice 2001, 36).

Each model develops an innovation system and production specialisation: the flexible market coordination in the LME model reinforces radical innovation, entailing “substantial shifts in product lines, the development of entirely new goods, or major changes to the production process” (Hall and Soskice 2001, 38), and tends to excel in the domain of high-end technology. In contrast, the comparative advantage of the CME model lies in the sector of capital goods founded on incremental innovation “marked by continuous but small-scale improvements to existing product lines and production processes” (Hall and Soskice 2001, 39). Since institutions are interdependent, complementary, as well as the source of countries' international competitiveness, these national models will continue to diversify.

The message sent by Hall and Soskice (2001) is clear: despite the economic superiority of the US other leading economies are not obliged to imitate its “model”, since their own institutions are the source that provides comparative advantages to specialised domestic firms. By showing that welfare states can also be the source of comparative advantages (in CMEs), the VoC framework sends a powerful analytical and political “corrective to single-minded commentaries on the supposedly superior performance of ‘free' markets, and also to the institutionalist pessimism on the future viability of ‘progressive' capitalisms” (Bruff, Ebenau, and May 2015, 31). In the context of sustained economic growth and expanding consumption in leading world economies, when it seemed that any contradictions and conflicts between labour and capital were finally overcome, the VoC approach soon overtook the dominant position in comparative scholarship, also as regards the political economy of the CEECs.

1.1.2. Slovenia in typologies of post-socialist capitalisms

The post-socialist transition was considered officially over by the early 2000s, at least for those post-socialist states that became full EU members in 2004 or were close to entering the EU. The main intellectual outcome of these developments was that, since the 2000s, the CEECs have become "test sites for existing western theories" (Bluhm 2010, 197), among which the VoC approach has played a prominent role. The discussion here, therefore, studies the "eastward globalisation" of the VoC approach (cf. Ebenau 2015) by focusing especially on Slovenia. The academic endeavours aimed at fully grasping the idiosyncratic institutional configuration of recently-emerged capitalism in post-socialist regions have severely challenged the dominant transition doctrine and further sophisticated the original approach of Hall and Soskice (2001), built on long-established capitalist economies with a relatively strong position on world markets. The discussion proceeds in two steps: studies using the original LME/CME typology are examined first, followed by the analysis that proposed novel types of classifications.

1.1.2.1. As an exceptional coordinated market economy

Feldman (2006) has been among the first scholars use the VoC approach to study post-socialist economies to challenge the teleological vision of the dominant writings on post-socialist economies that continued to consider "successful transition as a shift from a command economy to a market economy with a clear set of desirable features [based on] the 'right' policies, such as liberalisation, stabilisation, privatisation, and institutional reform" (Feldmann 2006, 830). In his study, Feldman (2006) examines the type of coordination mechanisms and the factors of their emergence in Slovenia and Estonia, with a special focus on industrial relations and wage bargaining.

The choice of study cases was not accidental. First, those countries shared similar historical legacies: besides the fact that they used to belong to larger federal structures, they both faced a hyperinflation situation and a collapse of traditional trade regimes in the early 1990s. However, with the annual evaluation of EBRD Transition reports it soon became clear that these countries had adopted opposite approaches to restructuring. Thus, in contrast to Estonia, known for its very radical and fast liberalisation, reforms in Slovenia have proceeded more gradually. However, both countries joined the EU in 2004, performed relatively well in macroeconomic terms, and experienced growth rates above the average of the transition countries as a whole since the late 1990s.

Feldmann (2006) makes two propositions. First, he identifies Estonia and Slovenia as representatives of the two varieties of capitalism proposed by Hall and Soskice. In contrast to the rather market-based coordination of industrial relations in Estonia, “[t]he Slovenian model represents a consensual and coordinated approach to industrial relations and social dialogue, with strong employers' organisations and unions, and also exceptionally high coverage of collective agreements. The countries most similar to it in this regard are probably Belgium, Austria, and Finland, archetypal CMEs” (Feldmann 2006, 841). Second, these diverging types of industrial relations were the outcomes of two sets of factors, namely inherited institutions and strategic policy choices with respect to privatisation and monetary policy.

For Feldmann (2006, 842), path dependency is crucial in sustaining cooperative coordination among actors, meaning that the “previous experience of some kind of institutionalised coordination is likely to facilitate the reestablishment of similar institutions under a new system”. Therefore, the emergence of coordinated institutions in Slovenia was derived from particular features of industrial relations proper to Yugoslav self-management. The past experience of horizontal and coordination between decentralised enterprises, as well as of the participation of workers in decision-making ties on the basis of workers' councils, were therefore seen as enabling factors that facilitated the establishment of CME in Slovenia.

Policy decisions have mattered too. In contrast to Estonia, which opted in favour of foreign investors, the privatisation method in Slovenia combined employee buyout with free redistribution of vouchers to citizens (see more in Section 5.1.2.1). For Feldmann (2006, 848) this “essentially cemented the pre-existing networks by strengthening the role of insiders as owners and by limiting foreign investment in privatised companies”. At the same time, high inflation and the introduction of new currency related to national independence made the chosen monetary policy one of key variables of the emerging type of coordination mechanism. In contrast to Estonia, which opted for a currency board pegged on the Deutschmark, the Slovenian authorities chose managed float, which, in turn, facilitated the coordination of wage increases by a centralised system of bargaining (Feldmann 2006, 849).

Studying differences in five institutional subareas, as defined by Hall and Soskice, between Estonia and Slovenia, Buchen (2007) complements Feldman's (2007) analysis. Buchen (2007) shows that, besides corporatist-like industrial relations, characterised by a considerable degree of wage bargaining coverage and codetermination, Slovenia's system of dual apprenticeships as well as of social protection with "generous replacement rate, relatively high overall expenditures, and a long maximum duration of payments" (Buchen 2007, 78) are also much similar to the institutional configuration of the German economy. Finally, "Slovenian trade figures reveal a comparative advantage in typical CME-s sectors, such as road vehicles, electric machinery and rubber manufacturing" (Buchen 2007, 81).

There is, however, one crucial difference between Slovenia and Germany, which seems to be related to their distinctive past. Buchen (2007, 85) highlights that in contrast to typical CMEs, the Slovenian corporate governance system is characterised by significant employee ownership and a strong influence of partly state-owned investment funds, which play the role of "a functional equivalent in the absence of proficient banks providing patient capital". Here Buchen (2007) raises an important point for the explanatory power of the VoC approach, namely its capacity to take into account the particularities of institutional configurations that are particular to post-socialist economies. This point is further explored by quantitative studies that depart from the initial dichotomist typology in order to elaborate new classifications of post-socialist economies.

1.1.2.2. Slovenia in the proliferation of post-socialist typologies of capitalism(s)

In parallel with attempts to transpose the dichotomist typology of Hall and Soskice (2001) to the post-socialist EU Member states, some scholars recognise the need to infuse more complexity in the original VoC approach and its parsimony. The first attempts are mostly made by quantitative studies that compare a large(r) number of post-socialist economies, and not only those that integrated into the EU (Bluhm 2010, 199). Observing that the LME/CME typology, developed on the example of the leading OECD countries with a relatively long history of capitalist development, cannot capture the institutional configurations of capitalism in the post-socialist region, Lane (2005) is among the first scholars to point to the need that one has to build on novel classifications to understand the particularities of post-socialist economies: "In post-communist economies", he highlights (Lane 2005, 231), "many components of capitalism are compromised by alien features – non-market economic relationships, the absence of a complementary ideology, of classes entrepreneurs and capitalists […] Analysis, then, must grasp not only the type of capitalism, but the extent to which capitalism has been constructed".

The following indicators are considered to capture "the scale of capitalism" (Lane 2005, 231): the private sector's share of GDP (for measuring the extent of private ownership of assets); stock market capitalisation (for measuring the presence of the free market) and domestic credit to the private sector (for measuring the extent of capitalist accumulation); price liberalisation, foreign investment, and the composition of exports (to measure the participation in global economy); unemployment, public and private health expenditures, and the Gini index (to measure income inequality and wealth redistribution). Lane (2005, 244-45) observes that "all, or nearly all, of the former state socialist countries diverge from the advanced Western ones: they all have a higher level of state ownership and control of the economy and have serious deficiencies in the levels of internally sources of investments". He proposes a new bi-polar typology: new EU post-socialist member countries and those bordering the EU approached the levels of OECD countries and come close to the continental type of market capitalism, but with a more pronounced role of states. In contrast, CIS, Georgia, and Ukraine are representatives of a hybrid state/market uncoordinated capitalism that is characterised by high income inequality, poor economic performance and so-called weak states (Lane 2005, 245).

Various scholars followed Lane's (2005) call to overcome the analytical parsimony of the VoC approach by expanding the range and scale of indicators taken into consideration, as well as the number of countries examined (see Table 1). Thus, whereas some scholars Slovenia continues to regard Slovenia as rather CME, other authors propose new classifications, depending on the chosen indicators that they operationalise. Slovenia appears as a representative of a developmental state (together with the Czech Republic and Hungary); of a corporative capitalism state (together with Hungary, Poland, Croatia, Macedonia, the Czech Republic); or, as already mentioned, a continental type of capitalism with a greater state role (together with the Czech Republic, Poland, Hungary, Slovakia, and Estonia). The transfer of the VoC approach eastward by quantitative analysis, therefore, leads to the proliferation of various typologies. Often, the latter contradict each other, and this all the more so because the set of countries that were classified in a similar group as Slovenia changed from study to study (cf. Bluhm 2010, 200-03).

Table 1 **Slovenia in varieties of capitalisms**

Variety of capitalism	Group of countries resembling Slovenia	Other typologies and included countries	Indicators
Continental type of capitalism with greater role of the state (Lane 2005)	Slovenia, Czech Republic, Poland, Hungary, Slovakia and Estonia	**Hybrid state/market uncoordinated capitalism**: Russia, Ukraine, Kazakhstan, Georgia, Turkmenistan and Moldova *Unclassified*: Uzbekistan, Belarus, Turkmenistan	private ownership of assets, the presence of a free market and price liberalisation, the accumulation of capital, integration in the global economy, mechanisms of firm coordination, income redistribution and inequality.
Developmental state (Cernat 2006)	Czech Republic Hungary	**Anglo-Saxon model**: Estonia **Developmental state**: Poland, Bulgaria, Latvia, Lithuania	collective bargaining system, state intervention, banking sector and financial institutions, the degree of internal institutional "consistency"
Market economy with strategic coordination (Knell and Srholec 2007)	Belarus, Ukraine, Croatia, Bosnia and Herzegovina, Czech Republic, Uzbekistan, Romania	**Market economy with (liberal) market coordination** Poland, Serbia and Montenegro, Kazakhstan, Georgia, Armenia, Moldova, Slovakia, Hungary, Lithuania, Estonia, Kyrgyzstan *In between*: Bulgaria, Macedonia, Azerbaijan, Latvia	Coordination index: Social cohesion (GINI, tax rates, government final consumption expenditure), labour market regulations (World Bank criteria), business regulations (World Bank criteria)
Corporative capitalism (Tridico 2011)	*Pure models:* Hungary, Slovenia *With hybrid tendency*: Poland *With competitive tendency*: Croatia, Macedonia, Czech Republic	**State capitalism:** Turkmenistan, Belarus, Uzbekistan **Hybrid capitalism:** *Pure models:* Romania, Bulgaria *With dirigiste tendency*: Bosnia and Herzegovina, Ukraine **Dirigiste capitalism:** *Pure models:* Azerbaijan, Kyrgyz Rep., Serbia, Moldova, Russia, Tajikistan, With corporative tendency: Montenegro **Competitive capitalism:** *Pure models*: Estonia, Slovakia *With dirigiste tendency*: Albania, Armenia, Georgia, Kazakhstan *With corporative tendency*: Lithuania, Latvia	Indicators: enterprise and privatisation, market and competition, trade and openness, financial system, wage nexus and social investments Various sources of variables: EBRD, World Bank and Freedom House

It is noteworthy, however, that by bringing economic outcomes of post-socialist countries in relation to national institutional configurations, these studies continue to challenge standard accounts and their methodology. Although by the mid-2000s, the transition doctrine had already integrated some ideas on the role of the state and institutions, the dominant approach to post-socialist countries, especially in the international organisations, remained within the limits of a teleological convergence approach toward a terminal equilibrium state. Much of the established literature has discussed the EBRD Transition Indicators that have measured the annual country-specific "progress" in approaching advanced market economies by ranking countries on a scale between 1 and 4+ (Chavance 2011, 166). However, as pointed by Tridico (2011, 171), those "indices do not seem to be significantly correlated with economic growth: the fastest growing group of countries has the lowest EBRD average indices".

The main massage send by the studies, discussed above, is that the political leaders in post-socialist states may rely on different policy measures and arrangements to achieve economic growth. What is more, the development of democratic political structures and welfare state institutions might in fact benefit to firms. “The corporative model always show better socio-economic variables, such as inequality, poverty, voice and accountability, freedom index, life expectancy and HDI […] These variables […] improve the level of human development, which in turn improves economic growth.” (Tridico 2011, 173)

However, despite these contributions, this analysis follows Bluhm (2010, 200), who argues that the confusing outcomes and the contradictory proliferation of typologies are indicative of “serious theoretical problems that are hardly reflected in the attempts to adapt the VoC approach to Central and Eastern Europe”. For this reason, the analysis will now turn to more profound criticism that has been addressed to theoretical and analytical underpinnings of the VoC approach in order to find insights for the construction of an alternative framework.

1.2. Beyond institutional analysis

Firm-centred analysis, methodological parsimony, and rational choice institutionalism, where micro-level developments relate to institutional and macroeconomic outcomes, as well as political implications in favour of state intervention and social arrangement have guaranteed the VoC approach its leading position among comparative scholarship (Bohle and Greskovits 2009, 361). Since its release, however, this analytical framework has faced extensive criticism, inter alia by those who have nevertheless continued to believe that the limits could be overcome within the fundamental analytical boundaries of the verities of capitalism approach by relaxing and/or adapting some premises of the original approach (Bruff, Ebenau, and May 2015, 32) – the above discussion on the proliferation of typologies is a good case in point. The section pushes the objections addressed to the VoC approach further by separating them into two groups: conceptual limits related to institutional determinism are discussed first, followed by an overview of the main shortcomings that limited the explanatory power of the VoC approach in explaining the development of post-socialist economies.

1.2.1. Limits to institutional determinism

By moving the analytical focus from external pressures (globalisation, liberalisation, international competition) to internal factors, the VoC approach brought national regulatory frameworks into the centre of the analysis and, hence, institutions. However, this incorporation of institutional dynamics into economic analysis was only limited in as much as "as a corollary of VoC's company and efficiency focus, approaches rooted in this tradition tend towards excessive economism and functionalism" (Bruff, Ebenau, and May 2015, 34). Three interrelated assumptions that contributed to the determinist theory of institutions are discussed here: institutional isomorphism, functionalism, and stability.

1.2.1.1. Institutional isomorphism and functionalism

Although Hall and Soskice (2001) integrate social and political dimensions to their economic analysis, their understanding of institutions remained grounded in functionalist grounds. They define institutions as systems of formal and informal rules surrounding the activity of economic actors to facilitate their coordination and their adjustment to the pressures of globalisation (Hall and Soskice 2001, 9). As a consequence "[t]he VoC framework places the economic functions of institutions in terms of coordination in the foreground, rather than the actor constellations and details of their structure" (Jackson and Deeg 2006, 23). Institutions are further seen as isomorphic entities that are supposed to follow the same operative logic everywhere and, hence, lay groundwork for the defining characteristics of socio-economic models.

In contrast, for Amable and Palombarini (2009), one should distinguish between institutions, i.e. social rules ("rules of the social game"), and agents' practices and strategies. Since institutions contribute to regulate socio-political conflicts and represent a (temporary) materialisation of achieved compromises, the logic of the institution's modus operandi may differ and become autonomous to the conditions that shaped the institutions' emergence in the first place (Amable and Palombarini 2009, 129-32).

Moreover, by considering national arrangements as institutionally complete and with a coherent set of institutions following the same logic, the VoC approach tends to reify national economies and does not allow them to take into account considerable differences regarding the institutional organisation, coordination methods, and innovative activities of countries within a given country. A typological methodology of ideal models may not make it possible to take into consideration the complex socio-economic processes and structures used in national economies (Crouch 2005, 443-44, Jackson and Deeg 2006, 157-58).

The question of institutional heterogeneity and differentiation between the institutional arrangements and modes of coordination at the regional and national level is also picked up by Bluhm's (2010) study on East Germany. "Research on the transfer of institutions from West to East Germany comes to the clear conclusion that the new East German states deviate from the German post-war model in important areas" (Bluhm 2010, 210). The hybridisation of institutional regimes is especially clear in the corporate governance system. The system of collective wage bargaining "has largely lost its function and importance as a standardising and regulating element” (Bluhm 2010, 210), whereas large dependent companies in the eastern part of the country have become dominated by intra-company hierarchy. The point on the power relations that co-constitute institutional change and structures is further developed below.

It is worth noting, as Bluhm (2010, 211), does, that the integration of East Germany was one of the driving force of “massive changes [that] the institutions and arrangements of the German CME [underwent] during the 1990s”. This observation points to another limit of the determinist institutional theory of the VoC approach, namely the underestimation of the complex character of institutional changes.

1.2.1.2. Path dependency, complementarity and stability

According to Hall and Soskice national arrangements are stable and coherent since companies tend to preserve the coordination mode that they usually rely on and that guarantees them their comparative advantage. This observation presupposes that institutions are complementary and path dependent. “A path-dependent process is one characterised by a self-reinforcing sequence of events through positive feedback mechanisms. In their [Hall and Soskice] work, a key source of positive feedback and thus stability is institutional complementarity” (Jackson and Deeg 2006, 158). Thus, due to the efficiency gains provided by a set of institutions, actors have a strong preference for these arrangements at the same time as the institutional complementarity makes institutional systems more resistant to change. If there is a change, it is mostly provoked by an external shock and entails a significant disruption; nevertheless, sooner or later the system would shift towards a new state of equilibrium.

By taking into account only one type of change, i.e. radical, and by considering exogenous factors as the primary driver of institutional change, the VoC approach downplays that often “behind formal institutional stability there [are] in many instances, substantial functional linkages” (Jackson and Deeg 2006, 158). To understand a transformative character of institutional change and their multiple forms, Streeck and Thelen (2005) distinguish between four types of gradual changes, i.e. layering, conversion, drift, and exhaustion. Instead of being driven by external developments, incremental and transformative change is inherent to the institutional dynamics and related to different expectations and interests between rule-makers and rule-takers, as well as the unexpected effects of the endorsed rules (Streeck 2009, 123-26).

Besides, for Amable and Palombarini (2009), there are various sorts of crises that shape the pace and scope of institutional change. They propose to distinguish between political crisis and systemic crisis. Political crises emerge when a given block of actors who has the most influence on the formation of state policy start to disintegrate. In contrast, systemic crises occur when political actors cannot form any social bloc that would be able to generate political support; these periods are usually shaped by intense reform activity and institutional change, since political leadership intervenes directly in established regulatory frameworks in order to aggregate new actors to form a social bloc and popular support (Amable and Palombarini 2009, 135-40).

Moreover, one should also take into consideration that national institutions are organized in a hierarchical way. For Amable and Palombarini (2009, 135), institutional hierarchy refers to "the importance of an institution for a social group or for the stability of a political compromise. For a socio-political group, hierarchically superior institutions are those that matter most for the interests of the groups". As such, the hierarchy "is based on the conformity, contradiction or neutrality of the institution with respect to the interests that define social groups" (Amable and Palombarini 2009, 135) and plays a crucial role in the political mediation, which is further discussed below.

As highlighted Bohle and Greskovits (2007), especially when one studies post-socialist economies, one should be attentive to their nascent and transformative character, instead of assuming the prior existence of established and consolidated national arrangements that can resist global pressures, as the VoC approach does. In post-socialist economies, capitalist institutions were put in place only recently and emerged out of institutional conditions that were much different from those that defined the initial development of capitalist institutions in nowadays' leading OECD economies. What is needed, thus, is a more thorough study of the emergence of institutions per se and to the changing character of national regulatory frameworks (Bohle and Greskovits 2009, 464).

1.2.2. Putting post-socialist change in historical time and space

By combining institutional functionalism and isomorphism with path dependent complementarity, the typologies proposed by the VoC approach are fixed in time and space and leave a place neither for evolutionary developments nor for the complex interaction of various social actors that underpinned institutional configurations (Crouch 2005, 444). Studies have pointed especially to three analytical weaknesses that prevent VoC scholarship to put the development of capitalist economies in the CEECs in relation to increasing international flows of capital and trade, as well as the formations of state-like institutions above and below national-state level: the underestimation of the role of external social forces, especially of the EU; the underestimation of the existence of multiple types of relations between national states; as well as of the conflictual character of political and economic change.

1.2.2.1. *External political forces and multi-level governance*

Hall and Soskice assume that firms try to resolve their coordination problems only within the limits of national institutions. This methodological nationalism, where economic systems are seen as nationally organised "closed containers", is hard to sustain (Nölke and Vliegenthart 2009, 673). With the rising multilevel governance, institutional arrangements have more and more transnational and multilevel character. As underscored by Deeg and Jackson (2007, 154) "[n]ational capitalisms are […] becoming 'institutionally incomplete' in that the regulatory coverage of different institutional domains increasingly takes place at different geographical scales". The European economies are especially characterized by multi-scalar and multi-territorial organisation of national institutions where "the EU now regulates not only a wide range of product markets but also financial markets, corporate governance institutions, and influences industrial relations and social welfare systems to a lesser extent" (Deeg and Jackson 2007, 154).

Thus, the transnational constitution of domestic arrangements has been particularly pronounced in post-socialist countries whose trajectories were strongly influenced by the EU. Candidate countries had to model their reform endeavours in line with the policy program set by the EU authorities, who also exercised considerable influence on candidate countries both in terms of content as well as the pace of domestic institutional changes. For Bluhm (2010, 203-04) the EU "strengthened the rational-bureaucratic capacities of the accession states throughout the application of the *Acquis Communautaire* […] In its pressure for continued liberalisation of the market and privatisation […] it has driven rapid transnationalisation and considerably reduced the scope of action of national policy".

Bohle and Greskovits (2007) also stress the critical role of the European integration in the consolidation of emerging capitalism economies in the CEECs. Nevertheless, they bring a more nuanced interpretation of the EU actors and their constraints. Instead of functioning as a mere external factor, the EU "implant[ed] international and transnational dimensions and reference points into domestic politics without actually participating in it" (Bohle and Greskovits 2007, 456). As they see it, domestic actors have often used the European requirements and regulations to promote their political agenda.

1.2.2.2. *Economic internationalisation and hierarchical construction of world markets*

The methodological nationalism also prevents the VoC approach to understand the impact of the increasing importance of global investors and international flows of commodities and capital on national institutions. "[N]ational institutions may thus pose a less clear set of constraints […] since firms use institutions beyond their national borders to help 'solve' coordination problems" (Deeg and Jackson 2007, 154). What is more, by focusing mainly on how states – better domestic companies – cope with heightened competition, the VoC approach tends to underestimate the multiple relations of interstate interdependence and coordination, marked by an asymmetry of power (Jessop 2015). National institutional configurations are made and re-made in interaction with the existing orders in other states and are dependent on a country's position in the global market. For Jessop (2015, 76-77), "[v]arieties of capitalism should be studied in terms of their asymmetrical, differential integration into an evolving world market that sets limits to compossible combinations and implies that some 'varieties' are more equal than others, that is, cause more problems (or create more 'disharmonies') for other varieties than they can cause for it".

Studying national configurations in relation to countries' position on world markets seems to be particularly important in the case of the CEECs. Due to the central role of foreign investments and MNCs in the economic performance of the CEECs, Nölke and Vliegenthart (2009) propose considering these states as a specific type of dependent market economy

(DME). Whereas they define the hierarchy within MNC as a critical coordination mechanism in DME, a combination of a relatively cheap but skilled labour force with important knowledge regarding medium-level of technology is seen as the source of its comparative advantages. Since the MNCs tend to keep the innovation-heavy activities in their headquarters, the dependent market economies exercise the role of assembly platforms with limited innovation.

In a similar vein, Myant and Drahokoupil (2011, 299-302) highlight that the dependent mode of international integration represents the most distinctive feature of post-socialist economies. Instead of competing for a leading position on world markets on the basis of innovation activities and a sectorial niche, the CEECs had to find ways to earn foreign currency to pay for imported technology and "to find solutions to the problem of financing the persistent current account deficits" (Myant and Drahokoupil 2011, 300).

1.2.2.3. Power relations, labour mobilisation and state intervention

In the VoC approach of Hall and Soskice (2001), companies are the key actors of socio-economic models, whereas the state can only interact with companies in designing institutions that correspond to their interests (Bohle and Greskovits 2009, 368). However, for Amable and Palombarini (2009, 129), the "[v]iability of a particular type of socio-economic model […] depend[s] not on the competitiveness of firms but on the capacities of the model to regulate social conflict". More precisely, by expanding the potential economic resources used by political actors, the macroeconomic situations and firms' competitiveness do shape socio-political dynamics; yet, they do not determine it. Social conflicts further can never be overcome since institutions "contribute de facto to regulating social conflict; however, they also structure social conflict" (Amable and Palombarini 2009, 133).

Pontusson (2005, 164) highlights, by focusing only on coordination, led by firms, the VoC framework tends to underestimate other forms of the relations that define political economies, such as power relations between different groups of actors, and social and political settlements that underlay institutional arrangements and their transformation. No institution is neutral and independent of social conflicts and their regulations, where states play a key role, much in contrast to the prevailing understanding of the VoC approach where states neither have the abilities nor power for autonomous actions (Bohle and Greskovits 2009, 368-69, Amable and Palombarini 2009, 133). In a similar vein, the role of labour in influencing the variations and changes of national institutional arrangements should be also taken into the account (Pontusson 2005, 164). Labour should be considered as an active actor in national industrial relations and only as one among the factors that affect the competitiveness of national economies (Hardy 2014, 147).

Indeed, it seems that one cannot understand the formation of institutional models in the CEECs, especially in Slovenia, without taking into consideration the redistribution of power among socio-political actors and their capacities to influence state interventions (cf. Pontusson 2005, 164). Crowley and Stanojević (2011) challenge the account of Feldmann (2006), discussed above, on the formation of CME in Slovenia. For them, the establishment of the centralised bargaining system in Slovenia should be placed in the context of a great social conflict. As they explain, there has long been strong evidence in support of the VoC argument: "out of all post-communist societies, Slovenia alone came out of communism with a dominant portion of its export sector dependent on skilled labour, where employers had a strong interest in coordinated institutions" (Crowley and Stanojević 2011, 296). The final institutional outcome, however, was not linked to the pressures and interests of dominant employers but to an open conflict between the representatives of labour, capital, and state: "Without this wave of labour mobilisation, and the continued relative strength of unions in Slovenia, coordinated institutions would either not have emerged, or at the very least would have been considerably weaker and less established than they have been" (Crowley and Stanojević 2011, 296). They argue that the specific legacy of the Yugoslav self-management was an essential source of the strength of Slovenian labour.

Overall all thus, as Bohle and Greskovits (2009, 368) argue, "the rigorous effort to make any potential source of dynamism […] subordinated to inherent equilibrating forces effectively turns VoC into an intellectual barrier to a dynamic perception of society". As the above three parts suggest, any analysis that would like to understand the development of CEECs should be attentive not only to the complex nature of national institutions, their multi-scalar and multi-territorialized character, but also to power structures and relationships within and between national economies.

Conclusion

By bringing inter-state dependencies and the crisis-prone nature of capitalism into the public spotlight, the outbreak of the global crisis in 2007/08 has challenged vigorously the explanatory power of the approach that built upon a rational-choice triptych of stability-coherency-efficiency and methodological nationalism (cf. Bruff and Horn 2012). Although it has become broadly asserted by now that the central place of the VoC approach as formulated by Hall and Soskice (2001) has significantly eroded during recent years, this chapter has proposed to study the VoC debate that prevailed within scholarship on the political economy of the CEECs in the previous decade. The primarily aim has not been to make another evaluation of the strengths and weaknesses of the VoC framework as applied to the CEECs. Instead, the chapter has mainly sought to find analytical elements for building an alternative theoretical framework.

As has been seen, the “eastward” globalisation of the VoC approach with its debate over the most accurate indicators, institutional theory and typology of post-socialist economies has prolonged and deepened the endeavours of those scholars that have criticised since the 1990s the finalist transition doctrine and its promotion of one-best-way liberalisation. The “eastward” expansion of the VoC approach has not only revealed that, despite common legacies, post-socialist economies could pursue multiple pathways for economic success, but has also brought forward issues otherwise neglected by mainstream literature, such as socio-economic inequalities and the role of participatory and welfare structures in achieving good economic performance. In fact, since its “arrival” in the post-socialist region in the mid-2000s, the VoC approach has sparked an important and stimulating debate over the appropriate theoretical and analytical tools to study the observed diversity of national economies in post-socialist space and time.

With respect to the institutional theory, this debate has brought forward the need to go beyond the determinist understanding of institutions in order to consider their political and power-relational character. National arrangements are hierarchically organised and more and more characterised by institutionally incomplete, multi-scalar and partially de-territorialised organisation. At the same time, the examination of the VoC debate has also brought forward the need to contextualise the trajectories of post-socialist economies in their historical space and time. One can understand the development of capitalism in the CEECs only by taking into account the role of the EU and representatives of foreign capital in the establishment of domestic socio-political arrangements, and their interdependent character with the form of international integration of post-socialist economies. In addition, one should consider how inherited structures and relations shape the capacities of domestic actors, especially labour, to influence state policies.

Those insights are taken as the initial indications for the elaboration of an alternative framework on the development of capitalism in the CEECs. In fact, the outbreak of the crisis has further fuelled the already existing criticism towards the initial VoC approach and opened space for the elaboration of new theoretical frameworks. Several competitive proposals have been already elaborated within the scholarship on the CEECs, which have now moved towards the so-called "post-VoC perspectives" (Drahokoupil and Myant 2015, Bohle and Greskovits 2012, Nölke and Vliegenthart 2009, Ebenau 2015). This internally a quite heterogeneous group of studies shares the observation that partial modifications of the VoC's relational understanding of firms are unable to overcome analytical drawbacks that the critical accounts, studied above, have explored. Nevertheless, by continuing to analyse capitalist diversity in the "East" through a focus on the institutions, the "post-VoC" scholars have remained anchored in a broader institutionalist paradigm (cf. Bruff, Ebenau, and May 2015, 34-35, Ebenau 2015, 51-55).

This analysis, however, follows those that claim that one should go deeper in the critical re-alignment (Bruff and Horn 2012, Bruff, Ebenau, and May 2015). This decision is mainly derived from what is considered the most important contribution of the 2000s' VoC debate "on the East". As has been seen, one of the most significant traits of capitalist institutions in the post-socialist region is the fact that they have been (re-)established only recently and on entirely different, socialist grounds from those in leading global economies. From the critical re-evaluations of the initial VoC approach studied above, one can deduce that, to capture the particularities of capitalism in the post-socialist region, it is necessary to equip oneself with two sorts of theories: with a theory on capitalist diversity, i.e. a theory on changing institutional arrangements that regulate the development of capitalist economies, as well as with a theory of systemic difference, i.e. of a change from socialism to capitalism. In other words, a theoretical framework on the development of post-socialist capitalism should be able to explain *how* and *why* capitalism as such was reintroduced in the region at the turn of 1990, as well as *how* and *why* various spatial-temporal institutional fixes, which have framed the further development of capitalism within the formal boundaries of post-socialist states, have evolved through time.

In order to build new theoretical perspectives, it is proposed to engage with one of the directions within critical scholarship on the comparative political economy literature is proposed, namely Marxism (Bruff, Ebenau, and May 2015, 38-40). Marx was among the first to approach the question of systemic differences and the unique character of capitalism, as was mentioned in the introduction. At the same time

> what the double crisis of Anglo-American finance capital and the Eurozone undeniably demonstrates is that we are not dealing with a set of idiosyncratically-specified capitalist models, but with an interconnected set of internally conflicted social structures of accumulation, each riddled with unavoidable and basic class tensions […] The processes at work at the level of the global system are the very ones that Marx first specified (Coates 2014, 25-26).

These thoughts are taken as primary guidelines in the construction of an alternative framework, which should also pay attention to several aspects of the institutional and economic development of capitalism in the post-socialist region that the VoC debate "on the East" has revealed. Given the importance of the international co-constitution of the development of capitalism in the post-socialist region, it is suggested to distinguish, for analytical reasons, two dimensions of the development of post-socialist economies: the "internal" one that refers to systemic change, and the "external" one, which is related to the change in the insertion in the international division of labour. Although in the concrete socio-historical development both dimensions have been intertwined and overlapped, it is proposed to conceptualise them separately to better grasp the issues at stake behind the emergence of capitalism in the post-socialist region and the transformations of the national configurations that have shaped it. The following two chapters thus explore Marxist-inspired debates on the emergence of capitalism, imperialism, and the European integration project to formulate two key concepts of the alternative theoretical framework, e. g. neoliberal primitive accumulation and dependent integration.

The regrouping of the new theoretical elements is guided in line with the following principle: the proposed framework should be "closed" enough to capture main processes and issues at stake behind post-socialist transition, i.e. "its" how and why, but also sufficiently "open" so as to be able to integrate new analytical elements that might appear when the proposed concepts are tested and operationalised in a historical study. In other words, the following two chapters should be considered only as the first phase of the elaboration of an alternative framework that would be able to fuse, as Coates (2015, 24) has said, “the best of the new institutionalism with the best of a reviving Marxism”.

2. EMERGENCE OF CAPITALISM IN THE POST-SOCIALIST REGION: NEOLIBERAL PRIMITIVE ACCUMULATION

Introduction

The post-1989 developments in countries that used to declare themselves as socialist represent without doubt a unique historical experience of a social change that took place simultaneously on the micro and macro levels. Various scholars from economics, sociology and anthropology demonstrate that the post-socialist change has concerned the organisational, institutional and systemic underpinnings of a national economy, as well as of everyday life, like family, work, the functioning of the local community (Chavance 2011, 159-60, Burawoy and Verdery 2011, 7). To analyse this change in terms of post-socialist transition, the discussion here brings Marx's analysis on 'So-called primitive accumulation' into a dialogue with scholars that build on his insights to explore the emergence of capitalism in the feudal period and to study the non-economic means of the reproduction of capitalism in the contemporary, neoliberal period. The chapter proposes a novel concept to study systemic change from socialism to capitalism at the end of the 20th century, namely neoliberal primitive accumulation.

For Selwyn (2014), Marx's work has arguably been criticised within and outside the Marxist school for being Eurocentric and determinist: there are sections in his writings that adopt a linear understanding of human history based on the "laws of motion" and the primacy of the economic sphere over other spheres of human life and where "stagnant" regions are supposed to follow the developmental path of the economically dynamic and progressive "West". At the same time, Selwyn (2014, 57) points that "Marx himself provides an alternative comprehension of human development". This chapter, indeed, aims to show that Marx's analysis of the emergence of capitalism in feudal Europe provides fertile grounds for the elaboration of a theoretical framework that would be able to grasp the complex and class-based character of a systemic change in favour of capitalism in a radically different space-time span, namely in the CEECs at the end of the 20th century.

The chapter proceeds in two steps. The first section studies the accounts on the transition from feudalism to capitalism to propose a class-relational and global understanding of primitive accumulation. In the second part, the primary mechanisms and historical conditions of primitive accumulation in the neoliberal period are explored. Recall, the following elaboration is built on the assumption that the Yugoslav socialist regime was a form of a non-capitalist system.

2.1. Towards a class-relational and global approach to primitive accumulation

In this section, Marx's account of 'So-called primitive accumulation' is brought into a dialogue with authors that have departed from his work to deepen, theoretically and analytically, the understanding of the emergence of capitalism in feudal Europe. After the turn of the 1950s, antagonist accounts from two Marxist historians, Paul Sweezy and Maurice Dobb initiated a debate on the causes and main drivers of the transition from feudalism to capitalism in the leading European economies. Although the socio-historical conditions of this process differ considerably from those of the post-socialist transition to capitalism, it is nonetheless important to study this debate. The exploration of Marx's initial analysis and the following different interpretations of it helps to grasp the main aspects of the emergence of capitalism and to construct the most suitable approach to study the restauration of the private property regime in (post-)socialist countries.

The section proceeds in four steps. Marx's analysis is discussed first, followed by the exploration of the three readings of his study that highlight, respectively, the role of capital-wealth accumulation and trade expansion; the conflictual reshuffling of social property structures and relations; and state interventionism in the changing international conditions.

2.1.1. The groundwork of the analysis of 'So-called primitive accumulation'

In order to question the accounts of the classical political economy with respect to the emergence of capitalism Marx closes his discussion in Capital, vol.1 by an analysis of the processes of "an accumulation which is not the result of the capitalist mode of production but its point of departure" (Marx 1976, 873). For him, "[t]his primitive accumulation plays approximately the same role in political economy as original sin does in theology. Adam bit the apple, and thereupon sin fell on the human race. Its origin is supposed to be explained when it is told as an anecdote about the past" (Marx 1976, 873). The standard accounts tend to adopt a circular argument based on a transhistorical character of profit-maximising rationality and the assumption of "the prior existence of capitalism in order to explain its coming into being" (Wood 2002, 4). Capitalism appears as deriving from the natural development of human history and a preliminary accumulation of wealth by rational and profit-seeking individuals (Wood 2002, 2-17, 34-37, Polanyi 2008, 94, 103-107, 204). For Marx (1976, 874), one should identify the point of rupture and analyse the issues at stake behind the establishment of conditions, economic, political and regulatory ones, that underpin the transformation of pre-capitalist social order into the capitalist one. To challenge the standard accounts of political economy, Marx proceeds in six steps.

First, he defines structural conditions that underpin the emergence of capitalism. The *Secret of primitive accumulation* (Chapter 26) (Marx 1976, 873-76) thus lies in the creation of two types of commodity owners and their structural polarisation on markets.

> [O]n the one hand, the owners of money, means of production, means of subsistence, who are eager to valorise the sum of values they have appropriated by buying the labour-power of others; on the other hand, free workers, the sellers of their own labour-power, and therefore the sellers of labour. Free workers, in the double sense that they neither form part of the means of production themselves, as would be the case with slaves, serfs, etc., nor do they own the means of production, as would be the case with self-employed peasant proprietors. (Marx 1976, 874)

The process of primitive accumulation therefore lays the foundations for capital-labour relations and structures: "It appears as 'primitive' because it forms the pre-history of capital, - and of the mode of production corresponding to capital" (Marx 1976, 875). Structurally, therefore, capitalism is founded on a very specific class relations where the class of owners stands against the class of workers, which are legally free but mainly without property. "The history of this expropriation assumes different aspects in different countries, and runs through various phases in different orders of succession, and at different historical epochs" (Marx 1976, 876). Marx decides to provide an account of the historical genesis of agricultural and industrial capitalism in England since "only [there], has [the expropriation] the classic form" (Marx 1976, 876).

In the *Expropriation of the agricultural population from the land* (Chapter 27) (Marx 1976, 877-95) and *Bloody legislation against the expropriated since the end of the fifteenth century, the forcing down of wages by act of parliament* (Chapter 28) (Marx 1976, 898-904), Marx points to a combination of institutional and physical aggression that paved the way for the emergence of capitalism in the English countryside: the expulsion of farmers from their lands, usurpation of the common lands, draconian legislation against vagrancy, whipping of vagrants and mendicants without a licence, enslaving of all persons recognised as idle, regulation of working conditions and transfer of legal power into the hands of private individuals were among the most prominent methods of primitive accumulation. After studying the "disgraceful proceedings of the state which employed police methods to accelerate the accumulation of capital by increasing the degree of exploitation of labour" (Marx 1976, 902), Marx draws attention to the *Genesis of the farmer capitalist* (Chapter 29) (Marx 1976, 905-07) and the *Impact of the agricultural revolution on industry* and the *Creation of a home market for industrial capital* (Chapter 30) (Marx 1976, 908-30). By bringing forward the key role of the restructuring of property structures and relations, as well as techniques of production of the countryside in the emergence of capitalism in England, Marx challenges standard narratives. The latter built on the assumption that "cities are from the beginning capitalism in embryo" (Wood 2002, 13) and associated the emergence of capitalism with the expansion of markets, commerce and merchant capital in cities (Wood 2002, 13).

Then, the *Genesis of Industrial Capital* (Chapter 31) (Marx 1976, 914-26) is studied: here, Marx shows how the initial process of accumulation and industrialisation resulted from a "systemi[c] combin[ation] […] of different moments of primitive accumulation" (Marx 1976, 915). The latter took the form of "[c]olonial system, public debts, heavy taxes, protection, commercial wars, etc., these offshoots of the period of manufacture swell to gigantic proportions during the period of infancy of large-scale industry" (Marx 1976, 923). The dissolution of the feudal property structures in the countryside on the one side and on the other the "discovery of gold and silver in America, the extirpation, enslavement and entombment in mines of the indigenous population of that continent, the beginnings of the conquest and plunder of India, and the conversion of Africa into a preserve for the commercial hunting of black skins" (Marx 1976, 915) helped to transform money capital, which was formed before the era of capitalism by means of usury and commerce, into industrial capital, and the financiers into "the modern bankocracy" (Marx 1976, 919).

Finally, in Chapters 32 and 33 on the *Historical tendency of capitalist accumulation* (Marx 1976, 927-30) and the *Modern theory of colonisation* (Marx 1976, 931-40), Marx again examines the logic behind the transformation of property structures and relations. By comparing the colonies to the "Old World", he shows that in both regions, despite their socio-economic and class differences, the development of capitalism is based on similar grounds, i.e. “the annihilation of that private property which rests on the labour of the individual himself” (Marx 1976).

Whereas “[i]n the tender annals of political economy, the idyll always reigns from time immemorial” (Marx 1976, 873), Marx (1976, 874) seeks to demonstrate that “the methods of primitive accumulation are anything but idyllic”. As has been shown, those methods refer as much to changes in property relations in the countryside and cities, to the reorganisation of production with the introduction of machinery and wage-labour, as well as to changing international integration, shaped by expanding trade and financial capital. In all regards, extra-economic means of violence, represented by the judicial and military powers of the state, played a prominent role.

Thus, rather than a complete theory on the transition from feudalism to capitalism, the chapter on the *So-called Primitive Accumulation* instead offers the theoretical avenues for a framework that should be specified further (cf. Kouvelakis 2007, 25, Selwyn 2014, 58). Three insights brought forward by Marx – the expansion of trade; change in property structure and relations; and state interventions – formed the cornerstones of the post-war debate that is studied below.

2.1.2. Primitive accumulation as a preliminary accumulation of wealth within the expanding trade linkages

Building on the world-systems theory (WST), Wallerstein (2006, 2011), as well as Frank and Trèves (1976), introduces into the debate on the transition from feudalism to capitalism Braudel’s *longue durée* in order to show the impacts of the formation of “a world-embracing commerce and a world-embracing market” (Marx in Wallerstein 2011, 77) on the emergence of world capitalism. Wallerstein (2011, 67) considers “1450–1640 the meaningful time unit, during which was created a capitalist world-economy” in Europe, based on the unification of two anterior commercial empires, the Mediterranean empire in the south and the Hanseatic empire of Flanders in the north-west; to these territories were attached the territory of Eastern Elba, several regions of Eastern Europe, islands in the Atlantic Ocean, and the New World. In a similar vein, Frank and Trèves (1976, 51-52) argue that from the 16th century onwards, capitalism in Europe was driven by the enrichment of merchant capital between the European commercial centres, whose hegemonic position shifted from the centres in south-east (the Ottoman Empire) towards those in Northwestern Europe (Venice, the Netherlands, and England) and the rest of the Western world. The expansion of capitalism is thus linked to a progressive expansion of international trade that created the channel for the incorporation of various regions in the capitalist production and was favourable to the quantitative accumulation of capital-wealth in the leading economies.

Although the two explanations of capitalism follow a similar analytical grid, it is worth noting that they differ in one minor but significant point: contrary to Frank and Trèves (1976), for Wallerstein (2006, 34-35), the capitalist system clearly distinguishes itself from the systems that existed beforehand, i.e. world empires. The demise of the latter helped to liberate profit-seeking economic activities and actors from the dominance of overarching imperial states, and led to the establishment of a systemic constraint of the on-going accumulation of capital and technological innovation: "what would develop now is the appropriation of a surplus which was based on more efficient and expanded productivity […] by means of a world market mechanism with the 'artificial' (that is, nonmarket) assistance of state machineries, none of which controlled the world market in its entirety (Wallerstein 2011, 38).

The development of the capitalist system was interdependent with changes in political structures and the rise of a multi-state system. (Wallerstein 2006, 57) The state, in particular the "strong" ones, plays a crucial role in securing the interest of "their" capitalists and the appropriation of profits from peripheral regions. The inclusion of "non-capitalist" regions into the capitalist world-system via colonisation and economic or political domination went thus hand in hand with an increasing regional specialisation and division of labour. The development of capitalism is thus less characterised by a progressive generalisation of wage labour and more by "the development of variegated methods of labour control for different products and different zones of the world-economy" (Wallerstein 2011, 38).

The concrete labour regimes correspond to the type of productive specialisation and the strategies of an individual capitalist to maximise profits and improve their market position. For example, slaves' work would not be appropriate for big production companies, since productive activities demand qualified workload; because the motivation of slaves depends on the use of force, they would not be of much use in such companies. Thus, the regions specialised in manufacturing production, i.e. the centre of the capitalist system, would put in place a system of paid work and independent work; semi-peripheral areas, i.e. the mainly agricultural Eastern Europe, would maintain the system of tenant farming similar to the one used during the feudal period, while slavery, for the most part, would be used in colonies.

Therefore, it might be said that in the WST perspective, primitive accumulation corresponds to the quantitative expansion of international trade whose development was governed by a politico-economic rivalry between productive units and "their" states. The incorporation of various regions into international trade, the transfer of surplus towards the leading economies and the specialisation of the systems of labour control, without doubt, represented important characteristics of capitalist development; however, do they indeed make it possible to explain why capitalism is defined by a systemic constraint of the rising labour productivity and profit maximisation? By negatively answering this question, the scholars of Political Marxism draw attention to the role of class struggle and social property relations.

2.1.3. Primitive accumulation as a conflictual reshuffling of social structure and property relations

Brenner (1977) formulates, at the end of the 1970s, a harsh critique of the WST. Although the latter intended to overcome A. Smith's optimistic account, where the intensification of trade and labour division would secure greater security, "they have failed, however, to discard the underlying individualistic-mechanist presuppositions of this model, they have ended up by erecting an alternative theory of capitalist development which is, in its central aspects, the mirror image of the 'progressist' thesis they wish to surpass" (Brenner 1977, 27). The WST considers the appearance of wage earners in Western Europe as a kind of technical adjustment to the specialisation of economic activities. In this perspective, capitalists are viewed as rational economic actors that know which type of labour control would be the most effective for a given specialisation of companies.

For Brenner (1977, 33), to understand the emergence of capitalism and the issues at stake one should consider class-power balance and structures specific to the English feudalism of the 16th century: "the origin of the property/surplus extraction system (class system) of free wage labour— the historical process by which labour power and the means of production become commodities". Two historically evolving and mutually dependent processes fuelled the emergence of capitalism in the English countryside. One the one side, the peasants' resistance provoked the dissolution of serfdom. The peasantry became free and could move, buy land or lease it. As a consequence, the traditional method of extracting surplus, based on political coercion and the submission of serf to lord's demesne (like raising the number of days the farmer is obliged to work for the landowner, the appropriation of a larger part of the farmers' crops etc.) could no longer be used by landowners and tenants. On the other side, the liberation of the peasantry from their servitude provoked the concentration of land in the private hands of landlords whereas peasants moved into wage-labour. The liberation of farmers from the feudal yoke went hand in hand with their dispossession from the means of production and subsistence and, hence, proletarisation (Brenner 1977, 32-34). This new property structure created conditions for the appropriation of the surplus by extra-economic means.

> [T]he ruling class was well positioned to increase relative surplus labour dramatically […] the societal organisation of production on the basis of individual producing units, with access only via the market to the means of subsistence and means of production, more or less forced the capitalists to accumulate via innovation—in order to be able to sell, to hold their place on the market, and thus to reproduce (Brenner 1977, 78).

Thus, in the perspective proposed by Brenner, capital does not so much represent a quantity of wealth in different forms; instead, it stands for social relations of property and class-power structures that differ from those characterising feudal societies. The primitive accumulation process might thus be defined as a double qualitative change that seeks to transform social class structures and, consequentially, the organisational logic and the objective of social production. The (i) implementation of class social relations, specific to the capitalist system led to the formation of two social roles, capitalist on one side, and labour producing surplus value on the other that are both characterised by their dependence on the market. The main characteristic of this system of market-dependence is (ii) a systemic constraint on raising labour productivity via technological innovation, profit maximisation and reinvestment in production (Brenner 1977, 48).

If one defines primitive accumulation as the introduction of capitalist social property relations and structures, then the question arises about the method and the social actor that had the regulatory capacities and power to formalise and institutionalise this social change. Brenner (1977) arguably points to the fact that due to the understanding of historical development in terms of changing institutional forms of capital-wealth accumulation the WST cannot theoretically demarcate the historically specific origins of capitalism and downplays the role of class struggle. However, by tending to displace the WST *in totto*, Brenner seems to overlook one of the crucial points brought forward by the WST authors, namely the role of state intervention and pressures from international competition.

2.1.4. Primitive accumulation as a state-led process within changing international conditions

As early as in the late 1970s, Fine (1978) warned that a clear opposition between unequal trade-exchange-oriented narratives and the analysis focusing on (internal) class structures reduces the explanatory power of each stream of study. Instead, one should seek to understand how external pressures, emanating either from international commerce or geopolitical rivalries interacted with development on the domestic level. The intensification of international trade and competition provided additional motivation to landlords to improve production techniques and to further sophisticate the composition of the commodities produced. "The stimulus of competitive exchange brings about an intensification of class struggle, the resolution of which determines subsequent development […] The ability to produce for the market is limited then by the existing class relations of production and their development, but also by other material conditions" (Fine 1978, 90).

One should also be careful not to think that the establishment of wage labour implied a shift in the ongoing improvements in productivity. In fact, as the WST indicates, the development of capitalism went in partnership with the various forms of labour restructuring and work regimes. The extent and pace of capitalist accumulation and economic growth remained subject to "the distributional struggle between capital and labour as a shortage of labour develops" (Fine 1978, 92). The technological upgrading of production was mostly stimulated by legislative changes which limited the length of the working day and pushed individual capitalists to improve their competitiveness with the technologically-driven increase of productivity. Thus, "the development of capitalism to its full maturity requires the formation of a power bloc, in response to working-class pressure, to limit the length of the working day and resolve the competitive conflict between different fractions of capital (and other classes) in a progressive direction" (Fine 1978, 93).

By pointing to the role of legislative changes, Fine (1978) draws attention to another actor that remains somewhat downplayed in Brenner's account, namely the state. The latter not only provided legal support for mass expropriation of peasants but also, as was already suggested by the WST, actively participated in the initial accumulation of capital. After the arrival of Christopher Columbus in the Americas, the European imperial states engaged on the one side in aggressive wars over the control of international trade and finance, and on the other provided various support to the development of domestic manufacture. Import protectionism, investment in infrastructure, the establishment of private or royal factories under state supervision, legislative support to the manufacturing discipline and proletarisation of masses of poor population, as well as the support of international commercial and military expansion were some of primarily instruments used by states that backed the accumulation of capital in its early phase (Durand 2009, 22-23).

> The unleashed process of the accumulation of capital is therefore simultaneously statist (construction of infrastructure, royal fabrics) and private through the expansion of trade, bank and, in modest way, new production facilities. The role of the state is thus crucial since the first steps of capitalism: by supporting the development of their bourgeoisie, the royalties seek to increase their power and to consolidate de nation-states as political, economic and cultural entities with a given territory (Durand 2009, 25).

Therefore, the emergence of capitalism in feudal Europe was determined by a particular historical interplay of international conditions – shaped by new commercial and financial opportunities – and internal class-power structures and balance – determined by a progressive proletarisation of dispossessed masses and rise of capitalist factions where states played the key role. The latter was not so much related to a straightforward submission of states to interests of domestic capitalists, as the WST suggests; instead, the development of capitalist production provided political actors with new opportunities to consolidate the state-bureaucratic apparatuses.

Recapitulation

Figure 1 reviews the main theoretical elements gathered until now in order to study the change from socialism to capitalism in the CEECs at the end of the previous century. Following Marx, the latter is conceptualised as 'primitive accumulation'; Marx adopts the concept used by standard political economy but points to the key dialectical interplay that underpinned the emergence of capitalism: the latter was simultaneously based on the liberalisation of farmers from the feudalist yoke and the proletarisation of disposed masses that were paced by state-legislative regulations. His encompassing historical analysis of the emergence of capitalism in England, that points to the interdependencies between property change, the reshuffling of social class structure, economic restructuring at home and abroad, as well as rapidly changing international division of labour, provided a background to different analytical interpretations that were at the core of the post-war debate on the transition from feudalism to capitalism.

Figure 1 **A class-relational and global approach to primitive accumulation**

Marx's so-called primitive accumulation

- Dialectical interplay between liberation of farmers and proletarisation of expropriated labour
- State legislative violence: expropriation of farmers, legislation against workers, commercial war and colonial slavery, credit and tax systems
- Rise of industrial capital linked to the expansion of trade, money capital and a profit-oriented agricultural production

Accumulation of wealth under expanding trade (Frank, Trèves, Wallerstein)

- Trade expansion and uneven exchange
- Regional specialisation of production and labour regimes
- The interplay of the economic and political spheres

Social structure and property relations change (Brenner)

- Contradictions in the feudal pattern of accumulation
- Change in social property structure and relations, establishing wage-labour and capitalists
- Creation of a new market-dependence system and a systemic constraint of labour productivity growth and profit-maximising

Internal-external interplay via the state (Fine, Durand)

- International changes as a source of pressures on domestic conflicts
- Statist and private character of capitalist accumulation
- Concrete pace and extent of capitalist accumulation shaped by struggles between working classes, factions of capital and the state

The WST scholars mainly build on Marx's insight on the role of colonisation, the expansion of commerce and the unequal exchange between productive units/states–all these processes enabled a preliminary accumulation of wealth and its appropriation by leading states, which dominated the emerging capitalist world economy. In contrast, for Brenner, however, it is the formation of the market-dependent capitalist and wage-labour classes that led to the systemic constraints of labour productivity growth and technological innovation of productive methods.

However, this explication too has limited explanatory power since it downplays the role of the state and does not allow an explanation of the contingent character of the emergence of capitalism. The latter is considered by the accounts that emphasise the historical interplay between international and domestic factors, as well as the historical coincidence of class interests of state actors and the nascent bourgeoisie.

Therefore, the studied debate on the transition from feudalism to capitalism suggests that the process of primitive accumulation is a complex and class-based social phenomena that could not be reduced to one dimension: very broadly, the process of primitive accumulation is seen as a large scale dispossession of popular masses based on the change in favour of a capitalist private property regime and relations that emerges as a consequence of intense domestic class conflict that resolves in favour of capital. The heightened class conflict is linked to contradictions, proper to the domestic organisation of production and patterns of accumulation, that intensify under the domestic pressures and those resulting from (changing) international conditions. In fact, this major “internal” reshuffling of class-power relations and structures impacts also on the changing insertion of a given national economy in the international division of labour. The state is a crucial actor since it has the legislative powers to reform the existing socio-economic system and to favour the direction of social change. Thus, paced by state interventions, the struggles over the change in the property system impact all sectors of domestic economy and spheres of social life.

2.2. Mechanisms and conditions of primitive accumulation in the neoliberal period

Various theoretical and political developments taking place in the second half of the 20th century have contributed to the renewal of the debate on Marx's concept of primitive accumulation. During the 1960s and the 1970s, so-called occidental Marxism found itself in a new "crisis" with another wave of scholars being increasingly preoccupied with the unfinished and internally contradictory character of Marx's *oeuvre* (Kouvelakis 2007, 34-37). Diverse schools of thought, in particular those within feminism, political ecology and post-Marxism sought to rejuvenate the dominant reading of Marx by problematising elements they considered as deriving from economic determinism. Capitalist exploitation should not be seen as a mere phenomenon of production tied to the workplace; instead, it takes place simultaneously within several social spheres (Glassman 2006, 609). The acknowledgement of "several moments of exploitation", economic and non-economic, has, in turn, led scholars to question the initial processes that subordinated various spheres to the capitalist markets and to launch a debate on the transhistorical character of primitive accumulation. The analytical revival of the concept of primitive accumulation went hand in hand with the political preoccupations that emerged as a reaction to the socioeconomic effects of the so-called neoliberal turn. To propose some avenues for international counter-movement against the dominant policies, the studies have sought to unpack "the *common* social character of what *prima facie* appears to be different policies brought about by different circumstances" (De Angelis, 2001, emphasis in original).

Since capitalism in Slovenia unfolds during the period of these political and theoretical mutations, proper to the historical development of the world economy at the end of the previous century, it is worth exploring insights from the debate on the transhistoric character of primitive accumulation. To avoid any misunderstanding, one remark is in order. The view defended here is that the analyses highlighting the ongoing character of primitive accumulation tend to obscure the crucial issue at stake when one speaks of primitive accumulation, i.e. the establishment *ex-novo* of the capitalist system as a consequence of a particular balance of class power and its concretisation in state intervention. Nonetheless, the studies on the importance of the non-economic means of intervention for the reproduction of contemporary capitalism, provide fruitful insights into various historical aspects and conditions that shaped the emergence of capitalism in the post-socialist region. In the following discussion, three mechanisms of neoliberal primitive accumulation are discussed: 1) the expansion of non-economic methods of the reproduction of capitalism in the neoliberal period; 2) the 1980s debt crisis and the contradictions of the socialist systems; 3) the integration of socialist states in the global capitalism project.

2.2.1. Idyllic methods of accumulation by dispossession

After the late 1990s, various scholars propose to consider the primitive accumulation as a process that defines the enlarged reproduction of capitalism, instead of only its initial, emerging phase. Examining the negotiations of the Multilateral Agreement on Investment (MAI), taking place within the OECD, Werlhof (2000) uses Marx's concept of primitive accumulation to highlight the socially devastating consequences if the participating states were to end the agreement. She considers the MAI as an extra-economic method to increase profits, in particular those of multinational corporations, by expropriating the working classes and intensifying the methods of exploitation. In 2001, the web journal The Commoner dedicated a special issue to the persistence of diverse forms of contemporary enclosures and highlight the transhistoric character of the primitive accumulation processes. However, the decisive driving force of the new analytical stream came mostly from Harvey's New Imperialism in 2003 where he reconceptualises primitive accumulation as accumulation by dispossession (AbyD).

Harvey (2003) departs from the observation that in the contemporary period the political methods examined by Marx in his chapter on primitive accumulation persist and tend to exacerbate. According to him, it is necessary to contextualise the reinforcement of these politics within the emergence of a particular policy agenda, i.e. neoliberalism, which has shaped the reconfiguration of national economies and social systems since the end of the 1970s. There exists substantial debate on the characteristics and nature of neoliberalism. For this analysis, it is important to highlight three points.

First, the neoliberalism is primary the political project of the restoration of class power that consolidated after a period of intense class conflict, driven by unsuccessful attempts to restore the post-war growth of the *Trente Glorieuses* within existing Keynesian-inspired arrangements and "austerity by consent" (Saad Filho 2010, 94-95) in the context of the 1960s–1970s crisis (Harvey 2007, 16-19). Second, the main neoliberal policy directions initiated by monetary restraint have been the following: the reduction of trade barriers and unrestricted capital mobility, deregulation of the labour market and wages, a shift in social policies from welfare to workfare, budgetary austerity, privatisation of public companies, services and pension systems (Hermann 2007, 3-5). In fact, liberalisation of international capital flows and deregulation of domestic financial system strengthened the influence of the financial sector and encouraged the financialisation of national economies (Stockhammer and Köhler 2015, 38), which will be further discussed in the next chapter (see Section 3.1.3). Moreover, although neoliberalism is not necessarily opposed to state interventionism on economic grounds and is rather interventionist, it does tend to distrust the democratic and political nature of government intervention and insulates certain policies and institutional practices from social and political contestation (Bruff 2014). Finally, neoliberal restructuring of national economies is a variegated process (Brenner, Peck, and Theodore 2010, 184), meaning that the concrete pace and form of neoliberalisation depend on domestic class-power struggles, existing socio-economic arrangements and inherited social practises, position on world markets etc.

It was precisely a world-wide spreading of diverse extra-economic methods aiming at the restoration of capitalist profits at the expense of social and democratic gains of the post-war reconstruction period that prompted Harvey (2003, 144) towards "[a] general re-evaluation of the continuous role and persistence of the predatory practices of 'primitive' or 'original' accumulation within the long historical geography of capital accumulation" and to coin the concept of AbyD. His approach builds on the theory of capitalism proposed by R. Luxembourg that highlights a dual aspect of capitalist development. On the one side, according to Luxembourg, the accumulation of capital is a purely economic process of the production of surplus value, founded on the unequal transaction between capitalist and wage labour. On the other side, the accumulation of capital also concerns the international relations of appropriation of non-capitalist social formations by the capitalist one, mostly by the method of colonial policy.

The development of capitalism is thus shaped by this double process of production and appropriation of wealth, that depends not only on economic but also on extra-economic means. The latter are inherent to the reproduction of capitalism in as much as they represent political reactions aiming at resolving systemic crises of capitalism. While for Luxembourg these crises materialise mostly in the form of the crisis of under-consumption, for Harvey (2003, 139-40) systemic crises of capitalism are driven mainly by a general overcapacity and a lack of opportunities for profitable investments. Manifesting either as labour surplus (unemployment) or surplus of capital (goods or money-capital), these crises are resolved mostly by methods that are not proper to the sphere of production and are similar to the political measures described by Marx in his chapter on the primitive accumulation, be it with respect to their form as well as regarding the pursued aim, i.e. the displacement of the economic and political control over assets from one class to another. Moreover, "[s]ince it seems peculiar to call an ongoing process 'primitive' or 'original'", Harvey (2004, 74) proposes to "substitute these terms by the concept of 'accumulation by dispossession'".

In other words, for Harvey (2003) the idyllic methods of primitive accumulation are not only at the origin of capitalism but are an essential mechanism of its reproduction. To expand the logic of profitability, AbyD liberates and introduces assets and properties in the sphere of the circulation of capital. AbyD is a transhistoric characteristic of capitalist development and is particularly powerful in a period of crises when the extended reproduction of capital is blocked and when the devaluation appears as the primarily solution. Harvey indeed traces a large spectrum of policies that create socio-political conditions for subordinating various assets and social relations to capitalist profit-making. These policies could be categorised in three groups: first, there are novel political practices, such as for instance the privatisation of common goods (water and soil), the commodification of the cultural sphere etc.; the second group of policies and expropriated assets follows the logic of cannibalistic practices and took place between rival capitals and/or their political representatives; finally, AbyD may refer also to the expansion of profitability logic on non-capitalist territories and social formations, echoing thus the above-mentioned insight of Luxembourg. (Harvey 2003, 145-50)

This aspect of the development of capitalism in the period of neoliberalism, i.e. the reconfiguration of territories to establish new spaces of capitalist private property relations is particularly valuable for our debate since Yugoslavia was a part of those states whose institutional landscape and structures of power relations were significantly remodelled by the means of the so-called structural adjustment programmes, implemented during the 1980s debt crisis that shook the so-called developing countries. For Harvey (2003), the sovereign debt crisis was just another manifestation of the general overaccumulation crisis which created opportunities for the creation of new market outlets. “The collapse of the Soviet Union and then the opening of China entailed a massive release of the hitherto unavailable assets into the mainstream of capital accumulation. What would have happened to overaccumulated capital these last thirty years if these new terrains of accumulation had not opened up?” (Harvey 2003, 149)

Therefore, although Harvey tends to assimilate under the same concept “a virtual grab bag of processes […] that are quite normal aspects or by-products of the already well-established sway of capital” (Brenner 2006, 100) and that “deprives accumulation by dispossession of its substance” (Brenner 2006, 101), his analysis allows to grasp the aspects, that were specific to the establishment of capitalism in the socialist region. Thus, it is therefore appropriate to take a closer look at the 1980s debt crisis.

2.2.2. The 1980s debt crisis and the contradictions of socialist regimes

Finding itself at the edge of insolvability in the early 1980s, Yugoslavia was together with Poland, Hungary and Morocco, among the first countries that faced the loss of the confidence of creditors from the leading (capitalist) economies, announcing the coming major financial and economic crisis. When bank creditors turned their backs on Mexico, the destabilisation of the international financial system took on systemic proportions and within a few months Argentina, Brazil and Chile found themselves in similar trouble as their counterparts from the so-called developing states (Boughton 2004, 13).

The outbreak of the 1980s crisis in the socialist region revealed the contradictions of post-war industrialisation of productive forces under the socialist banner. Regarding economic development, for Becker (2016, 40) the investment-based model and import substitution strategy started to reach their limits as early as at the end of the 1960s in the most-industrialised socialist countries. The more or less severe stagnation that the latter confronted during the 1970s was (temporarily) overcome by the reliance on cheap foreign loans, which were created by the “private ‘international debt economy’” (Lipietz 1984, 77). The latter resulted from changing strategies in the leading capitalist economies that tried to overcome economic hardship by alleviating the New Deal restrictions over international capitals flows and by stimulating the growth of international finance. At the same time, just after the 1973, Arab-Israeli war the OPEC countries decided in favour of a four-fold increase in oil prices and soon found themselves with substantial dollar surpluses, ready to be invested in the short- or long term. The oil shock coincided with the consolidation of the Eurodollar market which was one of the first offshore financial markets and the main deposit base of the OPEC oil surpluses, leading to favourable conditions (Panitch and Gindin 2012, 117-122; see also Section 3.1.3).

By reorienting their respective accumulation strategies in favour of foreign indebtedness, socialist leaders succeeded in recording steady growth rates and improving the range of (imported) consumer goods in a period when the advanced capitalist economies were fighting with recession and/or stagflation. The economic stabilisation thus also pacified political tensions that were driven by popular discontent with the single-party regime and aspirations for better social and "Western"-like consumer standards, which was especially strong among the emerging middle-classes. (Samary 2013) However, the reliance on the dollar-dominated private loans left socialist economies even more vulnerable to the crisis and dependent on changing the class-power balance provoked in the capitalist heartland, as the unintended causality following the decision of the president of the American Federal Reserve revealed. A drastic increase in interest rates all more severely destabilised the countries that had borrowed substantially during the 1970s, as it was accompanied by a rapid appreciation of the dollar and stagnant export markets in the main capitalist trading partners.

At the outbreak of the crisis the difficulties in improving exports, necessary to increase convertible currency reserves, revealed the technologically undernourished production and uncompetitive structures. The embracement of austerity measures to repay foreign debt obligations further fuelled the discontent of citizens: improvement in living standards stopped, social security became uncertain and soon the crisis of domestic production expanded to political structures and undermined the legitimacy of the entire regime (Močnik 2006, 63). Socio-economic contradictions were enhanced by the political ones. Referring to Yugoslavia, Woodward (1995b, 235) underlines that "[i]n contrast to the pressures toward concentration and financial centralisation found in open market economies, the Yugoslav government sought further decentralisation, deconcentration, and producer control". Such state building tended to weaken the regulatory and financial power of the federal state, its capacities for monetary control and macroeconomic management, as well as “the identification of the ‘society’ with the state” (Samary 1988, 289).

Therefore the emergence of post-socialist capitalism is an internally driven process that should be thought at the background of contradictions and power struggles, proper to the post-war industrialisation under socialist regimes. Analysing the demise of socialist states, Drahokoupil (2009, 88) highlights that “neoliberal strategies were outcomes of local agency and struggles, in which external support for neoliberalism was not a decisive factor”. For Becker (2016, 40-41) by the end of the 1980s, the leading segments of the power bloc composed of economic, cultural and political elites had already moved towards (neo-)liberalism and embraced the idea of capitalism.

Domestic conflicts and tensions were additionally heightened by changing international conditions. Socialist regimes were intrinsically linked to the international geopolitical order, shaped by the Cold-War “bi-polar” world (Samary 2013). However, since the late 1970s, the power of the USSR, economic, political, military or ideological weakened considerably, both from within and from without (Berend 1996, 232-53). At the same time, “[w]hen the old regimes in the CEECs began to collapse in 1988-9, a euphoric West immediately reacted and declared itself ready to assist in building up the new order. This generated […] hopes in the region” (Berend 1996, 334).

Using again the conceptual toolkit proposed by Harvey, the AbyD that shaped the reorganisation of social structures and relations in the socialist region in the 1980s “can […] be interpreted as the necessary cost of making a successful breakthrough into capitalist development with the strong backing of state power [...] In most cases, some combination of internal motivation and external pressure lies behind such transformations” (Harvey 2003, 154). The external pressures here refer not only to the changing geopolitical order; this “opening-up” of new territories to capitalist accumulation was orchestrated by an intense collaboration between domestic and international actors, in particular the IMF.

2.2.3. Integrating socialist states into the global capitalism project

John Williamson coined the term "Washington Consensus" in 1990 in order to label the policy set advised by the IMF and the WB, and supported by the US Treasury since the turn of the 1980s. In the literature on the trajectories of post-socialist transition, the Washington Consensus agenda (WCA) is normally related to macroeconomic policies that the IMF promoted during the restructuration of the Latin America countries and that were "exported" with slight modifications to the socialist region at the turn of 1990. The reform packages focused on price and trade liberalisation, fiscal retrenchment and privatisation, a convertible currency and tight monetary policy. As explained by Chavance (2011, 161), "[s]tabilisation would eliminate any perverse consequences of inflation, privatisation would create correct incentives for economic agents and liberalisation would allow competition to accomplish the necessary 'creative destruction' of industries and enterprises bequeathed by the old system". The WCA for post-socialist capitalism also promoted the de-regularisation of clearing markets and the integration of socialist economies via exports and foreign investments into the production network dominated by the leading European states. In fact, export-oriented development policy was considered as the best way to restore and secure economic growth (Gowan 1990, 191, see also Myant and Drahokoupil 2011, 86-87).

This very particular political-institutional matrix of emerging systems bore signs of the historical context within which it emerged. As Gowan (1999) ironically remarks, liberal trade relations, currency convertibility and the private sector as the main engine of the growth, the essential three elements of the WCA as applied to the so-called developing countries, "excluded most capitalisms throughout history from qualifying as capitalist at all" (Gowan 1999, 192, see also Ivanova 2007, 354). The first two measures "could in theory be applied without capitalist economy at all: they are to do with the external economic relations of states" (Gowan 1999, 192) and the pressures towards the intensification of international trade and capital flows.

For Boughton (2004, 18), the WCA can be compared to "the indigenous revolution or evolution in thinking in developing and developed countries" and their business and state elites. In a similar vein, Panitch and Gindin (2012) propose to consider the WCA as a particular policy set for a more encompassing restructuring of states. According to them, the events related to the fall of the Berlin wall were part of larger process of the realising of the global capitalism project under the informal empire of the US. “In practice this involved states actively engaged in broadening the reach and deepening the meaning of ‘free trade,’ so that ever more facets of life became subject to market relations, and more and more subject to the discipline of the free movement of capital across national borders” (Panitch and Gindin 2012, 195). The most important feature of the realisation of global capitalism during the last two decades of the twentieth century concerned the extension and consolidation of dense institutional linkages that underpinned the political and economic coordination between national economies.

The WCA and the IMF as its chief international institutional representative played an essential role here; in contrast to the previous financial crisis, the 1980s debt crisis had significant impacts on the way the IMF worked and its policy (Boughton 2004, 12). Many of the world’s largest banks faced insolvency, which not only implied a virtual halt in bank lending to developing countries but also exposed the advanced capitalist economies to a major banking crisis (Panitch and Gindin 2012, 215). As a consequence, international financial institutions were now “invested with new responsibilities for the orchestration of changes in domestic modes of regulation and administration designed to facilitate specific reforms and enhance the economic management capacities of government officials” (Panitch and Gindin 2012, 234, see also Gowan 1999, 42-43).

The WCA was a mechanism that allowed for a more profound restructuration of state apparatuses to make them capable of imposing fiscal and monetary restrictive policy against popular pressures for public expenditure. One of the central institutional changes in this reconfiguration of states' apparatuses in view of their integration in the global capitalism project was the establishment of an independent central bank.

> The concern with increasing states’ regulatory yardsticks, and even their capacities, went hand in hand with the push for central bank independence. Whether this was seen as countering the tendency of elected governments to bow to democratic pressures, or of authoritarian ones to serve their own self-interest, or both […] central bank independence in the making of monetary policy was designed primarily to insulate them from domestic pressures, but at the same time it meant *less* independence from the concerns of other central banks in the coordination of monetary policies toward stabilizing global financial markets and promoting capital flows. (Panitch and Gindin 2012, 238)

For Panitch and Gindin (2012, 236) central bank independence has been one of the key characteristics of a changing structural hierarchy among state apparatuses; the latter has been shaped by the reinforcement of institutional and political capacities of those state bodies that have been linked to international capital flows and that were responsible for national debt and money management. According to them, this neoliberal remodelling of state apparatuses

> certainly did not mean that demands emanating from elsewhere in society, such as those traditionally represented by ministries of industry, labour and welfare, were to be excluded from the state […] the latter were increasingly likely to restructure themselves so that their representation of non-financial interests would be more attuned […] to the exigencies of fiscal and monetary discipline. (Panitch and Gindin 2012, 239)

Therefore, the integration of socialist states into the global capitalism project refers to the transformation of state apparatuses and their role in constructing markets at home and abroad (cf. Močnik 2006, 55-60). This state remodelling implies two intertwined processes. The replacement of institutions and the rules of coordination particular to socialist systems with the regulations and norms that underpinned the capitalist market economy was accompanied by the underlying process of the reshuffling of the institutional infrastructure in favour of those state institutions and actors that were linked to international trade and capital. Instead of a quantitative reduction in state service and functioning, the re-hierarchisation of state apparatuses primarily concerns the establishment of new modalities and instruments of state intervention, as well as of its underlying social purpose and impact: the expansion of the profitability logic and international liberalisation, the deregulation of labour markets, as well as the insulation of monetary and fiscal policy from popular pressure for welfare expenditure, help to shift the power balance of social forces in favour of capital.

The internalisation of the modalities and rules of global capitalism was the cornerstone of the WCA. This process was neither linear nor homogenous across different regions. Institutional changes and frameworks that regulate economic activity in a specific space and time depend on the articulation of power relations among various groups of political, economic and social actors and their institutionalisation, as well as on the extent and nature of pressures emanating from political and economic conjuncture. "[T]he state itself is mutable to the extent that struggles by different classes and fractions of capital, and the outcome of these struggles, are constitutive processes in state institutional formation and reproduction" (Selwyn 2011, 11).

Recapitulation

To bring together elements that grasp the mechanisms and conditions of the primitive accumulation process in the neoliberal period the section here has departed from Harvey's analysis on AbyD (see Figure 2).

Figure 2 **Mechanisms and conditions of neoliberal primitive accumulation**

Accumulation by dispossession
(Harvey)

- *Systemic crisis of overaccumulation resolved by extra-economic means*: injection of new assets into the circulation of capital; displacement of the economic and political control over assets from one class to another
- *Different social logics* including the reorganisation of non-capitalist territories and social formations
- *Neoliberalism:* class politics after the 1970s with time-space variations in policies but similar direction (economic liberalisation, labour market deregulation, insulation of macroeconomic policy from democratic accountability)

The 1980s sovereign debt crisis
(Samary, Woodward)

The contradictions of state socialism :

- Reliance on foreign debt
- Limited technological upgrading
- Limited political liberties
- Weakening of state powers (Yugoslavia)

Changing international conditions :

- Liberalisation of financial markets and international debt economy
- Volcker's interest rates hike and stagnating international export markets
- The destabilisation of the Cold War regime

The integration of socialist states into global capitalism
(Panitch and Gindin)

- The WCA: mechanism for integrating states into the global capitalism project
- IMF as the main international mediator
- Restructuring of state apparatuses in favour of agencies linked to international trade and capital
- Macroeconomic policy shift in favour of restrictive fiscal and monetary policy
- The central bank independence and external
- liberalisation as two key regulatory changes

Harvey's study allows the contextualisation of neoliberal primitive accumulation with the systemic crisis of capitalist accumulation and the neoliberal class strategy that emerged after the 1970s. The reconfiguration of non-capitalist territories in view of their integration into world circulation of capital and the incorporation of market profitability logic is especially important for our analysis. This measure of AbyD turns attention to the 1980s debt crisis which brought forward the contradictions of socialist regimes and that escalated under the prolonged economic hardship at home and changing international conditions. The latter referred to the disintegration of the Cold-War geopolitical order as well as to changing strategies of the international financial institutions. Especially the IMF was the main institutionally channel that allowed the integration of the socialist states into the global capitalism project under the policies of the WCA. The integration of socialist states in the global capitalism project implies not only the introduction of a capitalist private property regime but also a very particular remodelling of state apparatuses, where the establishment of a central banking authority plays a key role. The formally independent status of the central bank eases the subordination of labour and its representatives in national institutions to the restrictive monetary and fiscal policies, as well as to the interests of international trade and finance.

Building on the assumption that the Yugoslav socialist regime was a non-capitalist system, the analysis here has brought together the main elements to conceptualise the systemic change from socialism to capitalism in terms of neoliberal primitive accumulation. As has been shown, the change in the insertion in the international division of labour is one of the essential aspects of neoliberal primitive accumulation. However, this concept reveals little about the exact modalities and mechanisms of the economic and political international power relations that influenced the organisation of capitalist accumulation in the post-socialist region. Therefore, to understand the change in the integration of (post-)socialist economies on world markets, it is proposed to build on the concept of dependent integration.

3. INTERNATIONAL INSERTION OF POST-SOCIALIST ECONOMIES: DEPENDENT INTEGRATION OF POST-SOCIALIST ECONOMIES

Introduction

The change of the socio-economic system in the post-socialist region of Central and Eastern Europe went hand in hand with another process, e.g. the trade reorientation in favour of the leading European economies that took place after the clearing regime was dismantled. For Andreff (2007, 91-93), the disintegration of the economic links between the old members of the CMEA and between the former republics of the USSR and Yugoslavia could only be comparable to the disintegration of the economic links following the dismantling of the Austro-Hungarian empire. At the same time, as was seen in the examination of the "eastward" expansion of the VoC debate, the development of post-socialist economies after the disintegration of socialist regimes could not be isolated from the influence of external actors, among whom the EU and foreign investors occupy prominent positions. Thus, post-socialist countries have changed their insertion in world markets not only on the economic level but on the political as well. To grasp the modalities and mechanisms of the international re-integration of post-socialist economies, this chapter combines elements from the dependency authors with the critical scholarship on the European integration project and incorporates their insights into the concept of dependent integration.

The chapter proceeds in two steps. The first section discusses dependency school authors to elaborate structural-historical and power relational approach to study dependency relations. The second part turns to the role of the European integration project in the making of global capitalism and a dependent consolidation of capitalism in the CEECs.

3.1. Towards a structural-historical and power relational understanding of dependency

The dependency approach emerged in the second half of the 20th century in Latin America. According to Blomstrom and Hettne (1984, 1), "[t]he Latin American debate on the problems of underdevelopment is probably the most extensive discussion on development in the Third World […] It has not only criticized the 'conventional' development theory […] but also acted as a catalyst in the forming of a more relevant and less ethnocentric development theory". The Latin America dependency debate had longer roots and should be seen in the continuation of the debate that Haya de la Torre and Mariátegui had already undertaken at the beginning of the previous century (Kay 1991, 33-35). However, it was the work of Raul Prébisch and his research team from the United National Economic Commission for Latin America (ECLA) that provided a decisive impetus to dependency debates. With influences from various scientific disciplines (the so-called *dependentistas* were economists, sociologists, political scientists and legal scholars) and theoretical approaches (i.e. Latin American structuralism/*cepalismo*, Marxism, Weberian sociology and Latin American historians), the scientific outcome of the so-called *dependentistas* can neither be termed a theory in retrospect, nor did the protagonists call it a theory themselves. "Dependency" was instead a common problem and the scientists involved were working in different ways on an analysis (and political solutions) of concrete situations of dependency (Blomstrom and Hettne 1984, Weissenbacher 2017). Moreover, the dependency debate soon spread in space and time – as will become clear below, recently, the insights of early dependency authors have been used to explore the asymmetrical interaction between the contemporary European economies as well.

Given the fact that the studies of *dependentisas* represent the first systemic attempt to problematize the uneven development of national economies from the viewpoint of less developed, peripheral regions, this section put into a dialogue various dependency school authors and elaborates a historical-structural and power-relational approach of dependency. The launching of the centre-periphery concept by ECLA's scholars is studied first; then, the concept of dependent development is discussed. In the last part, the characteristics of dependency relations and structures in the neoliberal period are studied.

3.1.1. ECLA holist structuralism, core-periphery paradigm and trade asymmetries

Rist (2008) claims that ECLA scholars were among the first to provide a systemic critic of the liberal vision of development that builds on the modernisation theory and the theory of comparative advantages. With respect to the former, Rostow's evolutionary-organic vision of development, proposed in his *Stages of economic growth* was decisive. Assuming that national economies act in isolation one from each other and are subject to general economic laws that overcome differences in time and space, Rostow identifies five periods of socio-economic development, i.e. the traditional society, the preconditions for take-off, the take-off, the drive to maturity, and the age of high mass-consumption. Development represents a linear path composed of several stages that transcend historical differences and that assumes the post-war US consumerist society as the culmination of economic prosperity and political liberty. (Rist 2008, 93-99)

On the other side, the theory of comparative advantage, first formulated by David Ricardo, assumes that international trade provides a win-win outcome for all national economies, regardless the differences in the development of domestic productive forces and market position of domestic capitalists. Mutual advantages derive from the differentiation of relative prices of the products brought onto the market by different countries. As a consequence, to gain from market exchange, each country tends to specialise in the sector most beneficial to it and secures its advantages in international trade. Both theories permeated the dominant US-sponsored international agencies and underpinned the prevailing wisdom with respect to the development of mainly rural regions. (Rist 2008, 113-14) The latter consisted of three pillars: "massive transfers of (mainly private) capital, exports of raw materials, and assured the removal of institutional barriers to the free movements of commodities" (Rist 2008, 113).

This liberal visions of international commerce and uneven development were challenged by the ECLA scholars. For them, underdevelopment was not just an early stage in the development of productive forces that acted in the isolation from external structures, but was an intrinsic characteristic of the capitalist world economy. "Underdevelopment was to be thought of as the result of a specific process that led to underdevelopment in one part of the world and development in another" (Blomstrom and Hettne 1984, 43). For the Latin American countries, such a structuralist and holist understanding of international asymmetries implied that the underdevelopment was linked to the specific role that these countries occupy in the hierarchical structure of the world economy and to the form of their international integration. According to Kay (1991, 35) in as much as the ECLA scholars explore the historical integration of Latin American economies in the world capitalist system as producers of primary products, their approach was not only structuralist but historical as well.

To grasp the asymmetric relations that structure the capitalist world economy, the scholars around R. Prébish introduced the concept of centre-periphery: the latter refers to the position that economies occupy in the international division of labour as well as to the asymmetrical redistribution of economic powers among those economies. The problems of development of peripheral regions should therefore be contextualised within the conditions of the world economic system and its unequal character. The deterioration of the periphery's terms of trade originates from the structural asymmetries between the core and the periphery leading to the fact that the gains from the increases of productivity are mostly appropriated by the already industrialized regions. (Kay 1991, 35-36)

In the centre, the monopolisation of the factor and goods markets prevented price reductions and the labour unions, due to their relative strength, are able to capture some parts of the increase in productivity in the form of increased wages. In contrast, the development of periphery is hampered by the concentration of technology in the primary-commodity-producing export sector and a continuous surplus of labour that, in turn, prevents the formation of strong trade unions. The technological modernisation of the periphery is dependent on imports of advanced technology and concentrated in those sectors that are linked to international trade. Consequently, it was the consumer in the centre that received the fruits of technological change in the periphery via reduced prices. The centre, therefore, is able to benefit not only from its own fruits of improved productivity but also from that of the periphery (Blomstrom and Hettne 1984, 40-41, Kay 1991, 35-37).

Although this argument has several shortcomings (Blomstrom and Hettne 1984, 40-41), it does suggest that under-development is not a unique phenomenon, but the sign of underlying structures and relations. Moreover, it also suggests that the working class' political and socio-economic conditions play an active role in the development of the centre and the periphery. Moreover, the ECLA argument about the central role of economic asymmetries between "centre" and "periphery" gave an impetus to a long and polemic dependency debate that expanded in time and space. For several authors, Dos Santos in his 1968 article *La crisis de la* *teoría del desarrollo y las relaciones de dependencia en América Latina* proposed the most complex definition of dependency (Arinci, Pessina, and Ebenau 2015, Blomstrom and Hettne 1984).

> By dependence we mean a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected. The relation of interdependence between two or more economies, and between these and world trade, assumes the form of dependence when some countries (the dominant ones) can expand and can be self-sustaining, while others (the dependent ones) can do this only as a reflection of that expansion, which can have either a positive or a negative effect on their immediate development. (Dos Santos 1986 in Blomstrom and Hettne 1984, 64)

Moreover, despite their analytical and theoretical differences, the dependency authors share some common assumptions: Dependency is related to different, yet interconnected conditions that shaped capital accumulation in the world economy´s centres and peripheries. Neither accumulation regimes in the centres nor the ones in the peripheries function independently of their position in the international division of labour. Yet, the degree of dependence either one of them faces is not similar. While accumulation in the centre can draw on linkages between the different economic sectors and profit from international trade at the same time, peripheries commonly lack a capital goods industry and thereby face a constant danger of current account imbalances due to the inevitable need for imports of capital and finished goods.

3.1.2. Asymmetrical productive capital flows, socio-political interplay and dependent development

Some dependency authors interpreted this centre-periphery constellation as a pitfall that could only be overcome by the dissociation from the capitalist world economy, while others emphasised the possibility of situations of dependency and development within the capitalist framework. With respect to the former, the concept of development of underdevelopment, proposed by A.G Frank (1966), is probably the most known one (in the English-speaking world) (Kay 1991, 46). Frank considers economic growth and dependency as mutually exclusive processes. Development of underdevelopment is the result of three interdependent factors: (1) underdevelopment is co-constituted by structures of the global capitalist economy, characterised by metropolis-satellite chain. The latter is a sort of “an instrument to suck capital or economic surplus out of its own satellites and to channel part of this surplus to the world metropolis of which all are satellites" (Frank 1966, 20); (2) since foreign (industrial) capital and the interests of the metropolis are the main drivers of local dynamism, the socio-economic structures in the peripheral region evolved in a dual way and disconnected way; and finally (3), the underdevelopment is linked to specific composition of the domestic ruling classes that Frank designates, in a similar vein as Baran (1957, 311), as "lumpen bourgeoisie". The latter is "is no more than the passive tool […] of foreign industry and commerce and its interests were identical with theirs. The members of this state are deeply interested in keeping us in a state (or, rather a process) of wretched backwardness from which foreign commerce derives all advantages" (Frank 1972, 5).

This static and mechanicist approach of dependency, based on the assumption that peripheral regions have a "structural 'lack of dynamism'" (Cardoso 1972, 94), was opposed by authors that were interested in exploring the historical variety of the concrete dependency situations; among them Cardoso and Faletto (Cardoso 1972, Cardoso and Faletto 1979) were among the most prominent ones (Kay 1991, 48). Bridging ECLA's structuralism and dependency approach, they introduce into the analysis of interdependent asymmetric economic structures and relations, explored by ECLA's scholars, social and political dimensions, as well as a complex understanding of the relationship between "external" and "internal" social forces and factors (Kay 1991, 48). As Cardoso (2009, 297-98) explains, "[i]nstead of considering all economies as homogeneous, we showed that in each one, social groups and classes interacted in a particular way with each other and with the central countries". Their concept of dependent development is particularly valuable for the understanding of the development in post-socialist countries since it explores changing constraints, mechanisms and structures of dependency relations and, hence, allows to grasp the variability of the forms of integration of national economies into the world market (Bruszt and Greskovits 2009).

For Cardoso and Faletto (1979), dependency is thus by no means simply determined by the external centres. Concrete situations of dependency are always historically specific and shaped by the unique dialectical configuration of the internal relationship between the state, classes and production, and the international dimension of an unequal division of labour and imperialism. Since the concrete form of composition of the ruling bloc depends on particular socio-economic dynamics and structures, the relationship between the representatives of foreign and national capital can take different forms, from strategic coalitions to partial conflict.

> We conceive the relationship between external and internal forces as forming a complex whole whose structural links are not based on mere external forms of exploitation and coercion, but are rooted in coincidences of interests between local dominant classes and international ones, and, on the other side, are challenged by local dominated groups and classes[.] (Cardoso and Faletto 1979, xvi)

For the possibility of development under conditions of dependency, this implies that being dependent limits the space for manoeuvring, but a certain form of dependent development is nevertheless possible (Cardoso and Faletto 1979, 173-74).

> [F]oreign investment no longer remains a simple zero-sum game of exploitation as was the pattern in classical imperialism. The idea that there occurs a kind of development of underdevelopment, apart from the play on words, is not helpful. In fact, *dependency, monopoly capitalism* and *development* are not contradictory terms: there occurs a kind of *dependent capitalist development* in the sectors of the Third World integrated into the new forms of monopolistic expansion. (Cardoso 1972, 89, emphasis in original)

Thus, one of the most striking features of the post-war period has been that "struggle for industrialisation […] has become increasingly the goal of foreign capital. Thus dependency and industrialisation cease to be contradictory" (Palma 1978, 909). The internationalisation of productive capital (FDI) flows was rather weak before WWII; afterwards, US investments started to flow first into the Latin American region and from the early 1950s, the leading European economies received most of the US productive capital outflows (Panitch and Gindin 2012, 114). The acceleration of productive capital flows, related to the spread of multinational corporations (MNCs) and the outsourcing of industrial activities to less-advanced regions, reconfigured dependency relations in various ways.

Foreign-led industrialisation implies that their dependency is related to the lack of new technology, i.e. a productive complementarity absent within the country. The "'material' aspect [of technology] is less impressive than its significance as a form of maintenance of control and as a necessary step in the process of capital accumulation. Through technological advantage, corporations make secure their key roles in the global system of capital accumulation" (Cardoso 1972, 92). Later on Panitch and Gindin (2012, 275, emphasis in original) highlight that "the *spread* of manufacturing came with a new hierarchy *within* manufacturing" which is one of the core characteristics of contemporary imperialism, dominated by the US informal empire. Despite important upgrading of developing countries in terms of higher value-added activities during the post-war period, capital investment and skilled labour, the leading economies locked in their advantages by keeping R&D, design, marketing, business services and finance "at home". Moreover, the linkage created via capital investment implies that "dependent economies […] are *exporting* capital to the dominant economies (Cardoso 1972, 92, emphasis in original) on the basis of payments of licences, patents and royalties etc. Various institutional devices act as mechanisms that keep the countries on diverging development trajectories and prevent peripheral regions to limit the outflows of profits.

Finally, a foreign-led (re-)industrialisation reconfigures domestic social relations and the composition of social classes in a way that is it difficult to conceive political struggles in dichotomist terms of foreign/imperialist and domestic/exploited (Cardoso 1972, 93).

> [D]ependency […] implies the possibility of the 'internalization of external interests' […] the system of domination reappears as an 'internal' force, through the social practices of local groups and classes which try to enforce foreign interests, not precisely because they are foreign, but because they may coincide with values and interests that these groups pretend are their own. (Cardoso and Faletto 1979, xvi)

Cardoso and Faletto propose here an insight into the reconfiguration of political structures in dependent economies that will be further advanced by Poulantzas (1974) later on. In his analysis of the post-war remodelling of imperialist relations under the aegis of the American state Poulantzas (1974, 80) underscores that "states themselves take charge of the interests of the dominant imperialist capital in its development within the 'national' social formation".

Therefore, the structural-historical approach of Cardoso and Faletto allows to understand peripheral development as an internally driven process whose concrete manifestation and concretisation depend on the historical interplay between internal and external factors. With the expansion of MNCs and foreign-led industrialisation, dependency relations are shaped not only by asymmetric trade relations but also by the asymmetric structure of cross-border capital movements. Their insistence that the forms of dependency change historically, however, necessitate taking a deeper look at the contemporary structures of global capitalism and forms of dependency.

3.1.3. Neoliberal re-regulations of financial markets and (dependent) financialisation

A foreign-led industrialisation of latecomers, which has further spatially widened and functionally deepened was not the only important change in the structures and organisation of the world economy. While the dependency debates of the 1960s and 1970s take into account asymmetric trade relations and structures of productive capital (FDI) movements on the international level, the changes in the world economy since the 1970s necessitate also considering a new wave of internationalisation of money capital and related financialisation of economies. The analysis here follows the definition that was adopted by Stockhammer, Durand, and List (2016) in their analysis of the European asymmetrical growth models. Financialisation is thus understood in terms of rising financial claims and incomes with respect to the size of the productive (real) sector. This process did not concern only financial institutions but has affected all segments of a national economy (households through rising household debt and firms with the predominance of shareholder value orientation).

The financialisation entailed a significant change in the character of dependency relations. The latter was studied in particular by scholars around Becker (Becker, Ćetković, and Weissenbacher 2016, Becker and Jäger 2012, Becker et al. 2010, Becker, Jäger, and Weissenbacher 2015). According to them, financialisation has taken two main forms depending on the form of money capital accumulated; it can be characterised by the accumulation of fictitious capital (market securities.), or it can be based on interest bearing capital (bank loans). While the financialisation in dominant economies has taken more complex forms, interest-bearing capital (bank loans) has played an important role for the development of the countries of the global (semi-)periphery, especially in the second half of the 1970s and since the 1990s. This is defined as *dependent financialisation* that makes a dependent country even more vulnerable and exposed to crises. In fact, with the accumulation of fictitious capital becoming dominant economically (but also politically in terms of safeguarding the interest of the financial sector) the world economy faced not only growing instability, but also a severe change in the character of dependency relations.

Dependent financialisation tends to reshape domestic socio-productive structures in a way hardly discussed by *dependentistas* from the 1960s and the 1970s. The latter captured heterogeneous development of domestic productive structures whereby those (industrial) sectors that were linked to the world market upgraded, and others, dependent on the dynamics of these sectors tended rather not to develop. High imports of money capital, however, tend to encourage the proliferation of precisely those sectors of peripheral economy that "are not exposed to strong international competition, like real estate and construction" (Becker, Jäger, and Weissenbacher 2015, 83). Capital inflows might therefore lead to the bifurcation of the price system whereby prices of financial assets (real estate) grew faster than prices of common commodities and fuel financial bubbles. If investments are financed by bank credits, the shifts in the lending strategy of international financial markets or investors from core countries undermine domestic banking systems as well. Likewise, under dependent financialisation imports tend to soar, the current account deficit deepens and external debt increases, whereas domestic productive capacities erode (Becker, Jäger, and Weissenbacher 2015, 83-85).

The contradictions of dependent financialisation might be further exacerbated by the denomination of loans in foreign currency incited by the mismatch between (higher) domestic and (lower) foreign interest rates. "(Semi-)dollarized or euroized models are even more dependent on capital inflows and leave fewer policy spaces [...] the incomes of the debtors are usually denominated in the national currency. Thus, any major devaluation or depreciation of the national currencies implies an imminent disaster for debtors and the risk of a banking crisis" (Becker et al. 2010, 230).

Dependent or not, "financialisation requires far-reaching changes in regulation. These changes are socially and politically contested and encompass both legal and social norms" (Becker et al. 2010, 228). The exact modalities and manifestations of financialisation of national economies are thus dependent on local class struggles and power relations, existing socio-economic structures and institutionalised compromises, as well as on the international integration of the countries (Stockhammer, Durand, and List 2016, 6). This led to the bringing forward of another actor of dependency relations that, according to Kay (1991), tends to be underestimated among *dependentistas,* the state. For him, dependency authors should pay greater attention "to the manifold relationships between state interventions and market mechanisms, as in today's more complex world the state-market dichotomy is an increasingly simplistic vision" (Kay 1991, 53).

In fact, the contemporary wave of changes of regulations of financial sectors, which have accompanied the neoliberal turn since the late 1970s, has led many authors to warn against the retreat of public institutions from the organisation of economy and the return of a pre-Keynesian era of non-interventionism (Panitch and Konings 2012, 87-89). However, as has been already suggested in the section on mechanisms of neoliberal primitive accumulation (see 2.2.3), “neoliberalism and the financial expansion have not uncoupled the market from their social context” (Panitch and Konings 2012, 88-89).

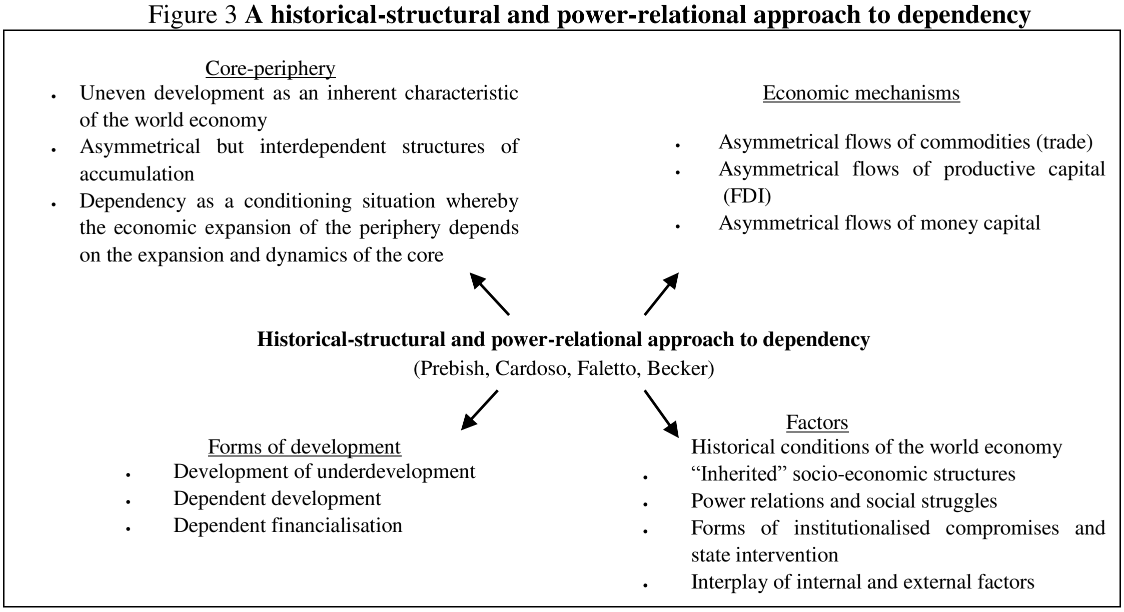
Financialisation of economies was based on a progressive removal of institutional barriers that hindered the expansion of financial activities during the Bretton Woods system, as well as on the creation of a new set of regulations that favoured the development of new financial commodities and markets, like, for instance, the mortgage-based securities market. For Panitch and Gindin (2012, 176), the financialisation played a crucial role in the making of global capitalism: derivatives activities of banks, for instance, “could […] meet the hedging needs not only of financial institutions […] but also of the many corporations seeking protection from the rapidly involving vulnerabilities associated with global trade and investment”. With respect to the European economies, the Single Market Act and the creation of a common currency were particularly favourable for the rise of financial capital and markets, be it through the fusion of industrial firms with financial activities and/or interests or through market liquidity encouraging the accumulation of more or less elementary forms of fictitious and interest-bearing capital (Durand and Keucheyan 2015, 8)

In fact, the European institutional infrastructure was not only important for the deepening of the economic asymmetries between the European economies via the financial channel. The EU exerted far-reaching impacts on the development of post-socialist economies, be it in terms of economic agenda, the state-building process and regulatory changes etc. However, before turning to the role of European integration in the development of peripheral capitalism in the post-socialist region, it is useful to recapitulate the main elements of historical-structural and power-relational understanding of asymmetrical dependency relations and socio-economic structures studied until now.

Recapitulation

By establishing a dialogue between scholars that build on one or another stream of dependency debate, the section here has proposed to adopt a historical-structural and power-relations definition of dependency (see Figure 3). The dynamics of core and periphery is considered as forming two aspects of a single process of the unequal structuration of the world economy and international division of labour. However, the dependency situation does not manifest itself in a uniform form but vary in space and time, depending on the degree and form of the insertion of the peripheral region into the international flows of commodities, productive capital and money capital. Although the dependency narrows the range of options for development, it is the complex historical interplay of domestic socio-economic structures, class-power balance, state intervention and the concrete form of political dependency on external factors that determine the final course of development in the periphery that could manifest either as development of underdevelopment, dependent development or dependent financialisation, or as a combination of these aspects.

Figure 3 **A historical-structural and power-relational approach to dependency**



3.2. The European integration in the making of global capitalism

Following the advice of Bruszt and Greskovits (2009, 414) that "the impact of diverse transnational integration regimes must be factored in the conceptualisation of late development, especially that EU membership and the very process of EU accession played a specific role in CEE", the section here proposes a theoretical background for the understanding of the role of the European integration project. This is all the more important since, as has been just seen with Cardoso and Faletto (1979), the relations and structures of dependency are based not only on the economic asymmetries but have simultaneously a political character as well. The emergence and development of capitalism in the post-socialist region have taken place in a very particular historical period, characterised by the US informal empire and the making of global capitalism at the end of the previous century. The nature of imperialism has changed: the territorial expansion which used to play a leading role in the political subordination of the peripheral region has been progressively replaced by the rule of law and institutional linkages (Panitch and Gindin 2012, 5-7). Building on a historical materialist understanding of the international political integration, the section here, therefore, regroups the theoretical elements for analysing the co-constitutive role of the European integration project in the making and securing of global capitalism on the European level. The ordoliberal pillars of European integrations are studied first, followed by the neoliberal makeover of the European institutions after the second half of the 1980s. The last part problematises the European eastward strategy.

3.2.1. Ordoliberal underpinnings in line with the US informal empire

For Cocks (1980), the post-war European integration project should be contextualised within a long-term need of capitalist states to cope with the crisis-prone nature of capitalist development. He defines political integration as the "geographical spread of state functions in response to the exigencies of capital accumulation and the realisation of surplus value, on the one hand, and their associated legitimation problems, on the other" (Cocks 1980, 15). International integration is, therefore, a method of state-building that emerged as a response to two key pressures that have shaped the development of capitalist societies: the need to assure for the accumulation of capital on the one side and on the other, the need to legitimise the class-power relations and structures that have underpinned the economic growth. The European integration project is therefore “a regional component in the post-war reconstruction of capitalism” (Cocks 1980, 26), where “politicians were not trying to create a radically new world; rather, they were trying via new growth-inducing machinery to preserve existing socioeconomic structures” (Cocks 1980, 28). More precisely, they were striving to preserve the existing relations and structures of class power with a radical reorganisation of the political structures on the supranational level.

The decisive initiative for the economic integration of the European states in the aftermath of the WWII did not come from one of the members of the “European founding fathers” as the official historical narrative claims it. Instead, it was the US state that under the pressures of the URSS and a burgeoning labour movement decided to intervene in European politics in order to secure regional economic integration of West Germany and to ease the reorganisation of the European elites, suffering from a significant loss of credibility after having collaborated with Nazi regime. In 1949, Marshall Plan administrator and American businessman Paul Hoffmann called for a rapid economic integration and the creation of a free trade zone that would encourage the development of economies of scale and fair competition (Durand 2013, 10-11, Panitch and Gindin 2012, 99-100). Signed in 1957, the Treaty of Rome already laid down the foundations for the forthcoming Single Market by foreseeing in its Article 3 the establishment of a “common market free from distortions to competition” (Durand 2013, 22). The treaty also created the main institutional channel for the development of a European competition policy, which was brought under the control of the EC and its Directorate General (DG) for Competition (Hermann 2007, 12).

The American intervention did not imply that the European dominant classes and their preoccupations with how to secure, economically and politically, the accumulation of capital on a national level did not play an active role in the actual design of the emerging European regulations. For Bonefeld (2002, 123), “[t]he emergence of the dependent masses as a political force during the inter-war period and especially the then attempt of finding a — Keynesian — resolution to its emergence, is most important for the understanding of the European project”. In a search for a political solution to counter the “intrusive masses”, Alfred Müller, an ordoliberal economist from Germany, exercised the most significant influence; its concept of social market economy soon gained a prominent role in the European strategy of the containment of the democratic pressures (Durand 2013, 24).

In contrast to classical liberalism, ordoliberalism gives the state with its rules-based system of law and regulations a central place in the improvement of market conditions. Since atomistic competitors are supposed to secure their profit margins by colluding in cartels and abusing their dominant market position "state-enforced competition rules guaranteeing free competition and free market access are considered indispensable" (Wigger 2015, 119). The regulation of the market should be transposed "to an 'extrademocratic' authority which, in the name of technical efficiency and expertise, wields political power" (Bonefeld 2002, 125). Social market economy – the concept that figures in the 2009 Lisbon Treaty (Durand 2013, 25; see also below) – is thus both authoritarian and antisocial since it seeks to limit income redistributive public policies, to restrain trade unions' bargaining and to adjust welfare state expenditure to the improvement of productivity (Bonefeld 2002, 127). In fact, by transforming public intervention in the instrument for securing competition, it tends to neutralise Keynesian economic policies *in totto*. (Durand 2013, 25-26)

Therefore, the primary aim of the supranational institutional framework, created in the aftermath of the war, was to insulate from democratic accountability and popular pressures the political regulations of the free market and benefits that the latter brought for the recovery of capitalist factions. This rationale of European integration underpinned its evolution and gained an additional institutional basis during the realisation of the single market and euro project when "[i]t became increasingly clear that the project of European integration had little or nothing to do with a more progressive variety of capitalism that would challenge the American empire, but was rather part and parcel of the ongoing integration of Europe itself into global capitalism under the aegis of the American empire" (Panitch and Gindin 2012, 203).

3.2.2. Neoliberal makeover with the single market and the euro

The overcapacity crisis, the competitive pressure from the US and Japan, the failure of national therapies in leading European economies to cope with the economic stagnation, as well as the weakening of the labour movement (Durand and Keucheyan 2015, 3, Panitch and Gindin 2012, 196-97, Bohle 2006, 64) allowed to European ruling classes to take some major steps forward in the European integration project after the mid-1980s. For (Ivanova 2007, 351), "any analysis of EU policy towards Eastern Europe that does not take into account this internal process of neoliberal restructuring emanating from the transformation of West European capitalism is bound to be dismissed as superficial, if not entirely missing the point."

This neoliberal remaking was shaped by the arrival of a new actor in European policy-making In 1983, the European Round Table of Industrialists (ERI), e.g. the primary institutional representative of the CEOs of the biggest European MNCs, was established and soon became "*primus inter pares* in the European landscape of think tanks, agenda-setting and policy planning groups" (Holman 2001, 171). Since its 1985 report on Changing Scales the ERT formed the relation of "symmetrical interdependence with the European Commission" (Holman 2001, 171) and exercised a major influence on its political directives (cf. van Apeldoorn 2013).

In its White Paper 'Completing the Internal Market', published in 1985 the EC set measures to abolish non-tariff barriers and to complete the internal market by 1992. In 1987 the Single European Act institutionalised the internal market programme and declared the goals of the four freedoms, e.g. freedom of goods, services, capital and labour. As explained by Bieler (2006, 81) "a bigger market was supposed to lead to tougher competition resulting in higher efficiency, greater profits and eventually through a trickle-down effect in more general wealth and more jobs. National markets should be deregulated and liberalised, national companies were to be privatised." Since the early 1990s, various directives were adopted to accelerate the liberalisation of public services and utilities: telecommunications (1990), railways (1991), electricity (1996), postal services (1997) and gas (1998) (Hermann 2007, 13). At the same time, single market state aid rules forbade any state-led industrial policy, defined as a 'distortion of competition' (Becker, Jäger, and Weissenbacher 2015, 92). In fact, the EU competition policy is designed in such a way to favour the interest of big capital and the already existing oligopolies (Carchedi 2001, 125).

The acceleration of the internal market project gave new impetus to the competitiveness agenda, led by the free market proponents that dominated the Commission's DG competition: [f]rom the late 1980s onwards, competitiveness rankings, macroeconomic performance indexes, benchmarking best practices and scoreboards have formed the apex of the neoliberal organisation of capitalism in Europe" (Wigger 2015, 117). The replacement of the notion of 'fair' competition by 'free' competition in the consolidated text of the Treaty of the European Union was symptomatic for the priority given to harsh competition, legitimised behind the consumer welfare paradigm (Wigger 2015, 117).

Among others, the Treaty of the European Union, also known as the Maastricht Treaty, entered into effect in 1993, laid out the plans for the realisation of the Economic and Monetary Union (EMU). In the following years, the establishment of a common currency was additionally framed by various treaties and multilateral agreements, including the Stability and Growth Pact (SGP), adopted by the European Council summit in Amsterdam in 1997, and the 2000 Lisbon Strategy (Lapavitsas 2012, 2). The former mainly "commit[ed] members to stay within the neoliberal convergence criteria even after the start of the EMU on 1 January 1999" (Bieler 2006, 82); the latter mainly "established the framework for reorienting labour market and employment policies towards supply-side flexibilisation strategies in order to enhance 'national competitiveness'" (van Apeldoorn 2013, 193).

Stockhammer and Köhler (2015, 38) summarise the main structure of the EMU regime in six points: (1) fiscal policy remain essentially national policy; neither common tax system nor common fund were established that would allow for the fiscal transfer across the regions and ease the adjustment of less competitive regions and secure counter-cyclical stimulus in the period of crisis. "The EU budget, limited to 2% of GDP, is too small and too inflexible to serve a macroeconomic function" (Stockhammer and Köhler 2015, 38); (2) by obliging national governments to keep their public deficit and debt below 3% and 60% of GDP, the Maastricht convergence criteria restrict national fiscal policy; (3) the monetary policy is centralised and led by a supranational and independent European Central Bank (ECB) effectively targeting inflation close to or below 2%. Therefore, "[e]conomic growth and employment are only secondary objectives, subordinated to price stability" (Bieler 2006, 81); (4) the financial markets are liberalised implying that the "EU forgoes instruments of controlling credit growth or allocating credits " (Stockhammer and Köhler 2015, 38); (5) no-bailed out clause prevailed, meaning that neither ECB status nor national governments could help a Member state in financial difficulties[3]; finally, (6) since the restrictive fiscal policy, abolition of exchange rate policy and centralisation of monetary policy paralyze standard economic policy tools, downward adjustment of labour markets and wage policies become the prime instrument of national governments to cope with economic imbalances and heightened competition.

Such an agenda has important implications for the peculiar EU state building. For Durand and Keucheyan (2015, 2), "the retreat of the labour movement at national level strongly influenced the forms the relaunch of European integration took in the 1980s, allowing social issues to be systematically side-lined while competition, monetary and financial issues took prominence". Labour markets and wage policies remained regulated on the national level whereas the attempts to create the European social legislation, able to counterbalance the heightened competition, have not really realised. In fact, the uneven rescaling of state powers and institutions following the territorial displacement of regulations concerning competition, monetary and trade regimes on the EU level could be seen as a method to overcome the formal and social power barriers in national states' institutional architecture. Analysing the European constitution, Močnik (2006, 115) highlights that "not only that the treaty does not protect social rights, it actually secures the interests of capital. Therefore, to a large extent, it is anti-social. In a similar vein, the treaty not only prevents the formation of a democratic political system, but it also secures the authority that is not under the democratic control […] To a large extent, [the treaty] is anti-democratic". For Stockhammer and Köhler (2015, 44), "[the] particular form of European integration is the outcome of a strategy of European national capital classes that have used European integration to undermine the, in their view, excessively corporatist and Keynesian (national) states."

Therefore, whereas the main economic rationale behind the euro project was to reduce states' vulnerability to external currency fluctuations and to improve states' capacities to cover their trade deficits on the basis of a big and unified financial market, its political-class rationale was to render "national states, on their own initiative, [unable] to accommodate class conflict through credit expansion or currency devaluation. The EMU, then, inscribes the neoliberal policy of market freedom associated with Hayek through the creation of European supranational institutional devices that check expansionary responses to labour conflict"

[3] Note that in this area a fundamental change took place during the Eurozone crisis. In 2012, the ECB started to buy government bonds under the so-called Outright Monetary Transaction program (Stockhammer and Köhler 2015, 43; see also Section 6.1.3).

(Bonefeld 2002, 132-33). It is at the background of this neoliberal deepening of the ordoliberal project outlined in the aftermath of WWII (cf. Durand 2013, 28) that one should consider also the design of the European eastward enlargement strategy as well as the decision of the leaders of post-socialist countries to pursue it.

3.2.3. Eastward enlargement: a mechanism for promoting foreign capital and neoliberal depoliticisation of a domestic class rule

For Holman (2001, 178) the EU strategy with respect to the integration of the post-socialist countries had three main elements: the gradual liberalisation of interregional trade; a financial assistance programme; and strategy to absorb (some of) CEECs as full members. Formal links between the emerging capitalist CEECs and the European Economic Community (ECC), as it was called until 1993, started with the signing of the so-called Association Agreements in 1991. The latter “laid the basis for a range of forms of political and economic cooperation, including the gradual freeing of trade over a 10-year period” (Myant and Drahokoupil 2011, 90). In fact, the liberalisation of trade linkages in the early 1990s was to a large extent the substitute for the financial help for the CEECs that the leading capitalist states promised when the socialist regimes started to collapse in 1988–1989 (Berend 1996, 334).

In 1989, the EC took the responsibility to coordinate economic aid to Poland and Hungary. The programme, known as the PHARE (Poland, Hungary: Assistance for Restructuring Economies), was later extended to many other countries, including those from the disintegrating Yugoslavia (Ivanova 2007, 362). In the same year, the most advanced economies gathered in the G-24 group even pledged to create a fund of $27 billion over three years (Berend 1996, 335). For Berend (1996, 334) “the initial Western reaction still followed the old reflexes of the Cold War, and when it seemed to be a vital interest of the West to contribute to the disintegration. But once state socialism collapsed and the Cold War was over, Western enthusiasm […] was replaced with doubts and revulsion” (Berend 1996, 334-35). Therefore, despite promises and expectation the disbursed aid, with Polish debt reduction included, “was insignificant compared with the Marshall Plan aid at today’s prices, the funds that have flown into Southern European EU members or even the amount invested by Germany in the former East Germany” (Ivanova 2007, 363).

The meagre external help was also indicative of the initial reluctance of the EU members to open its doors to the post-socialist late comers. Still, in June 1993, the Copenhagen European Council very broadly formulated the political and economic conditions for accession. Nevertheless, for Bohle (2006, 69), despite meagre political integration, the EU already had significant leverage on the regulatory frameworks of the CEECs, especially in the field of competition, sectorial policies and industrial standards. Therefore, it was not before 1997, at the occasion of the 1997 European Council summit in Amsterdam that the EU enlargement strategy took more concrete form outlined in the Agenda 2000 report, presented by the EC (Andreff 2007, 426, 431). After the signing of the "accession partnerships" in 1997, the recommendations of the EC became to a significant extent the main driver of domestic reform processes (Bohle 2006, 69). In December 2001, the EU announced the co-called big bang and its readiness to simultaneously integrate ten candidate countries[4]; some months later, 2004 was chosen as the year of full accession (Chavance and Magnin 2004, 26-28).

The economic concerns dominated the integration processes. "The economic *acquis*, meaning the body of European Union law regulating economic policy and organisation, was enforced much more systematically, improving the quality of the regulatory environment, but it also contained features that weakened the impact of the social model" (Myant and Drahokoupil 2011, 92). For many (Holman 2001, Bohle 2006, Ivanova 2007), the ERT played an important role in the actual design of the enlargement criteria since very early on. The Agenda 2000 was indicative of the convergence and synchronisation of the ideas and strategies between the EC and the ERT with respect to the post-socialist latecomers (Holman 2001, 175). The main political content of their strategies has been succinctly resumed by Vliegenthart and Horn (2007, 150): "Inspired by the Lisbon agenda that ought to make Europe the most competitive knowledge-based economy in the world by 2010, the incorporation of CEE into the EU can be regarded as a further increase of internal competition between the different member states with the aim to increase the EU's overall competitiveness". Thus, Samary (2002/3) observes, although during eastward expansion European governments increased structural funds for agriculture and social cohesion, the budgetary restrictions incorporated in the *acquis communautaire* prevented the real convergence of living standards. "[T]he convergence is monetarist and institutional. It does not aim towards the generalisation of the highest social rights, but in contrast towards their compression" (Samary 2002/3, 33).

[4] The ten countries referred to Hungary, Poland, Czech Republic, Slovakia, Estonia, Latvia, Lithuania, Slovenia, Malta and Cyprus. The accession of Romania and Bulgaria was delayed (Chavance and Magnin 2004, 26-28).

What is more, the economic *acquis* was also selective in character and followed the dominant strategy "of maximizing profit opportunities for foreign investors and Western credit agencies" (Ivanova 2007, 363). Gowan (1999, 208-09) highlights that the earlier trade agreement incorporated a host of protectionist measures for the EU Member States in precisely those areas where the post-socialist late-comers were competitive: agriculture, textiles, steel and chemicals. Likewise, the PHARE programme served mostly as a vehicle for the expansion of foreign investors in the period of the early privatisations in the CEECs, by providing funds for foreign accountancy firms, investment banks and domestic privatisation agencies[5] (Gowan 1999, 216-17). And whereas the European member countries were reluctant to "extend the policy areas that would make CEEC's transition and adaptation easier – like substantial financial aid, free movement of labour, or liberalisation of agricultural trade" (Bohle 2006, 69), the post-socialist candidates countries were demanded to liberalise domestic markets before gaining membership, in contrast to the southern enlargement where membership and economic liberalisation had a clear linkage (Bohle 2006, 69). Finally, [t]he new member states were also required to enter the EMU and in doing so to accept the European common currency […] The conditions for EMU accession put pressure on public expenditure in general and on social expenditure in particular" (Myant and Drahokoupil 2011, 92).

Therefore, from the early 1990s, the EU promoted a particular state project, a regime of accumulation and a form of international integration in emerging post-socialist countries (cf. Ivanova 2007, 357-59). For Bohle (2006, 69, emphasis in original) "[t]he EU clearly uses its influence in the region in order to *export the core of its deregulatory programme".* In fact, Shields (2012, 89-93) argues that "Europeanisation" of post-socialist states only replaced the economic shock therapy with the institutional one that further embedded neoliberal transition in the region. Since negotiations were dominated by technocratic evaluations and a benchmarking approach, the EU integration project served also as a vehicle of neoliberal depoliticisation whereby "functions deemed vital to a more interventionist era of state management of the economy, became removed from centralised state control and placed in the remit of supposedly neutral objective institutions, technocrats, or juridical frameworks" (Shields 2012, 89).

[5] Note that "[t]he PHARE objectives were officially changed in 1997 to strengthening public administration and institutional convergence with the EU and 'promoting economic and social cohesion' (for which read damage control). The programme was phased out in 2006" (Ivanova 2007, 362).

Moreover, the European strategy that exhibited a significant anti-Keynesian bias prevented the pursuit of traditional national/industrial policies and, hence, the recovery on a self-sustaining basis with integrated development of domestic capital formation and productive capital (cf. Ivanova 2007, 354, Podkaminer 2013, 26-27). "The real problem of the former socialist states was neither socialism nor central planning, but their underdevelopment [that] was rather a pre-existing condition and its origins are rooted in structural patterns of economic and political interactions that have much in common with the past of other dependent regions" (Ivanova 2007, 365). The European eastward strategy was therefore favourable for the deepening of economic dependency and conducive to the development of peripheral capitalism in the CEECs (Holman 2004, Ivanova 2007).

Yet, as pointed by Cardoso and Faletto, dependency relations are not only economic but simultaneously they have political character as well. From this point of view, the intensification of dependency between the European core countries and post-socialist countries was not a mere external disciplining. Bohle, Radice, and Shields (2007, 85) argue that "even if the pressure the EU exerts on applicants and new member states is stronger than its influence on old members, Europeanisation [was] what [Central Eastern Europe] actors and institutions make of the requirements set by the EU rather than a strictly top down process." The integration in the EU was used as an instrument for local elites to assert their interests in internal struggles and to overcome resistance by shifting the scale of decision-making from the national to the European level. "[T]he conditions for membership and – once inside the EU – the Single Market and the EMU-convergence criteria played an important role in disciplining governments and in legitimizing otherwise difficult-to-swallow socio-economic adjustment policies". (Holman 2004, 221)

At the same time, Bohle and Greskovits (2012, 86-87) claim that the EU accession restructured political coordination in the CEECs by tending to reinforce the rule of executive bodies and limit party competition. The reform blueprint provided by the European enlargement strategy encouraged political parties to replace the competition over substantive issues with competition over the control of the reform process in line with convergence criteria. Therefore, the depoliticised character of the EU integration allowed domestic policy makers to insulate themselves from popular pressures, helped to lock in the reform agenda and "dispel[s] political confrontation from within the ambit of state institutions" (Shields 2012, 89). At the background of the politico-economic setting which rendered the pursuit of any deficit-spending industrial strategy and developmentalist protectionism particularly difficult, many authors highlight that by the mid-2000s, the dependence of post-socialist countries on FDI reshaped state apparatuses in favour of the so-called competition state, whose primary purpose is to establish institutional infrastructure that is favourable to foreign investment in domestic industry and finance (Drahokoupil 2009, Bohle 2009).

The fact that no government from the CEECs challenged the goal of EU membership and the conditions, upon which they had no bargaining influence, should also be seen in the light of the initial composition of domestic ruling classes with no "real" bourgeoisie, as well as the character of post-socialist state transformation. Bohle (2006, 75-76) explains that "[i]nstead of powerful economic groups, it was intellectuals and elites within the state who became responsible for the neoliberal reforms. The weak societal embeddedness of the reform elites and the equally weak transformation of states are two of the reasons why eastern European reformers were eager to secure external assistance early on" (Bohle 2006, 75). The 'return to Europe', with the alleged prospects of prosperity and democracy, therefore, not only helped the reformist elites to strengthen their neoliberal projects but also to legitimise the hardship of the establishment of "capitalism without capitalists" (Bohle 2006, 76). For Drahokoupil (2009, 192), by using the EU agenda to pushing through policies in line with their own interest and strategy, "[t]he new elites within [the CEECs] became integrated, even if in a junior position, into the wider transnational capitalist class, which constitutes an organic base for recent restructuring of capitalism on the global scale".

Recapitulation

Figure 4 below recapitulates the main theoretical elements for the understanding of the role of the European integration project in the sustaining of the development of capitalism in post-socialist region after neoliberal primitive accumulation. The emergence of European integration in the aftermath of the Second World Was has been defined as a political solution for securing economic growth and weakening of labour without directly confronting it. Although the economic integration of the European economies was a regional guarantor of the US state-led project of the making of global capitalism, its exact modalities echoed class-power preoccupations "at home" and the attempts of the European ruling classes to insulate economic policy from popular pressures and neutralise Keynesian-like interventionism. The latter got new impetus after the mid-1980s with the realisation of the single market and common currency project: fiscal restrictions, abolition of exchange rate mechanism and the transfer of trade, competition and monetary policy on the supranational level created a structural framework that favoured the subordination of labour markets and wage policies to the concerns of international trade and finance.

Figure 4 **European integration project in the making of global capitalism**

<u>International political integration</u>

- Political response for coping with the crisis-prone nature of capitalism
- Supranational state building to secure accumulation of capital (economic growth) and legitimise class-power structures and relations

<u>Ordoliberal project in line with the US informal empire</u>

- Regional (European) component of the US informal empire
- Free trade and economic integration for boosting economies of scale
- Interventionist state as a key actor in improving market undistorted competition
- Changing scales of state regulations to insulate economic policy from democratic accountability and to neutralise Keynesian economic policy

European integration project in the making of global capitalism
(Cocks, Panitch, Gindin, Bonefeld, Durand, Keucheyan, Ivanova, Shields)

<u>Neoliberal makeover with the single market and the euro</u>

- Single market Act (1987), Maastricht Treaty (1993), SGP (1997), Lisbon Strategy (2000)
- *Incomplete state building*: the uneven rescaling of state apparatuses on the supranational level (trade, competition, monetary policy)
- *Structural pressures on labour market and wage regulations*: fiscal conservatism, abolition of exchange rate mechanism, centralisation of inflation targeting monetary policy, supply-side flexibilisation policy, liberalisation of financial markets)

<u>Eastward enlargement strategy</u>

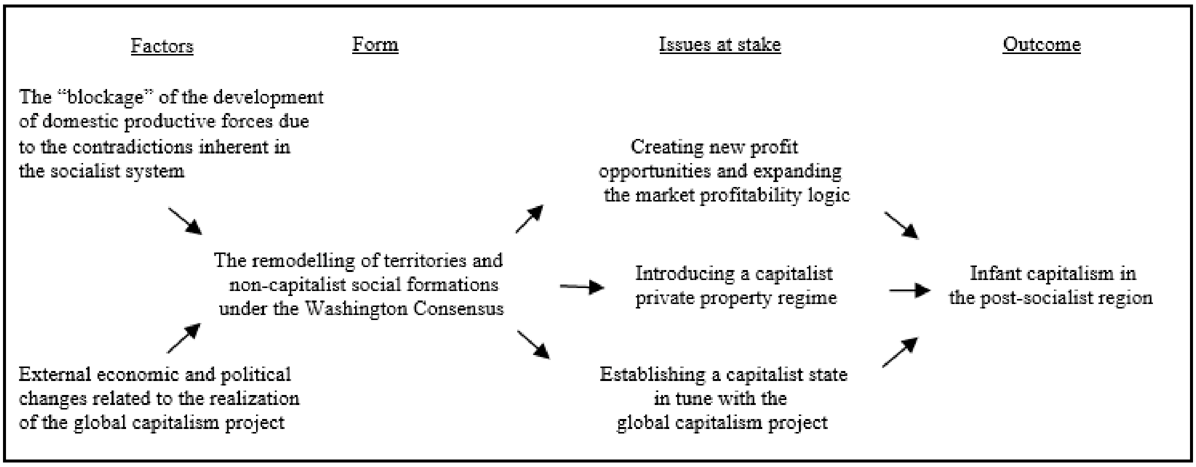
- Copenhagen European Council (1993), the Agenda 2000 (1997), Big Bang announcement (2001)
- *FDI promotion machinery*: no "Marshall plan" and cross-regional fiscal transfers, early economic liberalisation, asymmetrical trade agreements, restrictions of deficit-spending industrial policies and state aid to firms
- *Depoliticisation of domestic class rule*: from class-power structures and relations "without capitalists" to transnationalised capitalist classes; party competition over the accomplishment of convergence criteria; external instruments for overcoming domestic resistance

Conclusion

The last two chapters have sought to propose new theoretical perspectives for studying the development of post-socialist economies. They built on the assumption that the Yugoslav socialist system was a non-capitalist and on the analytical separation of concrete socio-economic development of national economies on two levels, the internal and the external one. Two concepts have been proposed, neoliberal primitive accumulation and dependent integration. Whereas the insights from the studies on the emergence of capitalism in feudal Europe were brought together to introduce a class-relational and global approach to primitive accumulation, Harvey's analysis on AbyD was taken as a starting point to explore further the modalities of primitive accumulation in the neoliberal period. In a similar vein, whereas the dialogue between various dependency school authors was insightful for the elaboration of structural-historical and power relational understanding of dependency, the debate on the role of the European integration project in the making of global capitalism brought forward the elements for studying the mechanisms of the European core-periphery relations and structures in the neoliberal period, with a specific of focus on the European integration of post-socialist states.

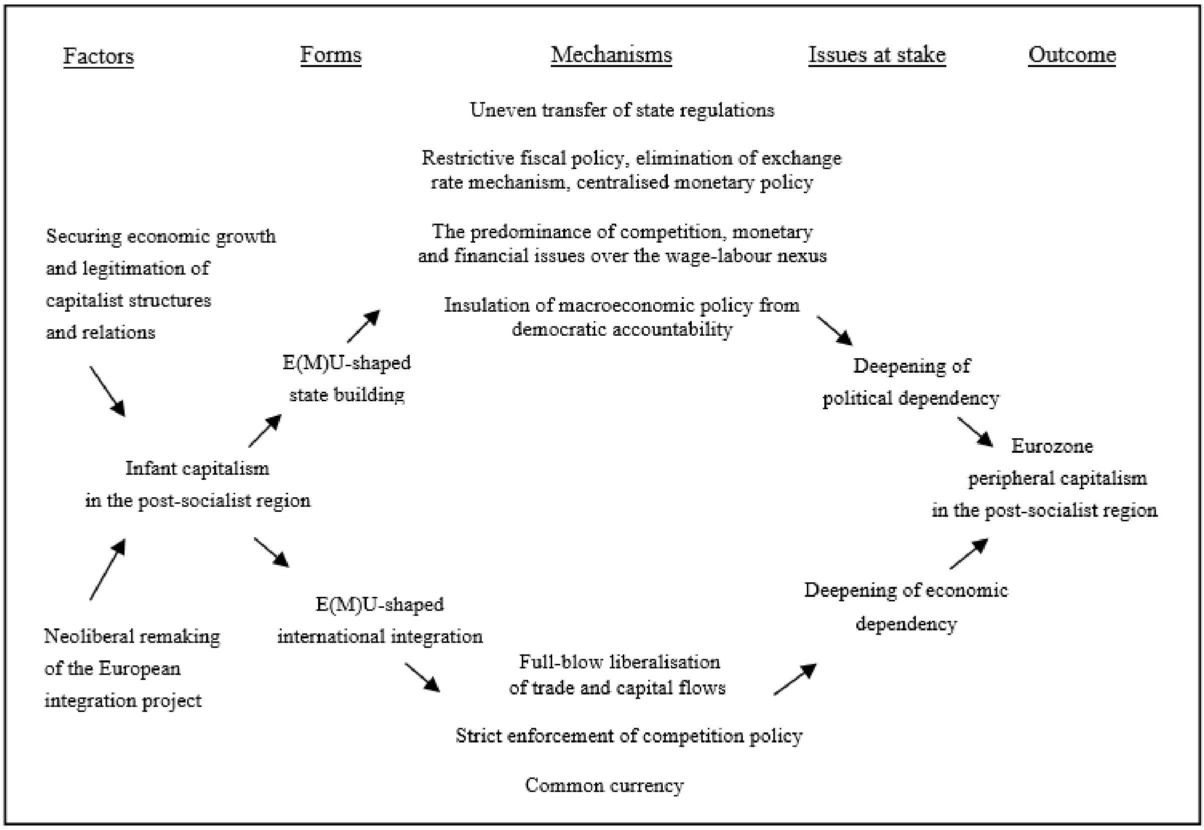
Now, it is proposed to bring together all the studied theoretical elements and to formulate the main hypothesis on the development of capitalism in Slovenia and its double transition. To do this, Figures 5 and 6 below schematises the post-socialist transition from neoliberal primitive accumulation (Figure 5) to Eurozone peripheral capitalism (Figure 6). It is called Eurozone – instead of European – since the regulations and structures of the EMU to a large extent also framed the developments on the European level in countries that have not introduced the common currency, as has been mentioned above.

Figure 5 **From neoliberal primitive accumulation process …**



The neoliberal primitive accumulation is defined as a process of the establishment ex novo of the capitalist system in order to resolve the situation of an acute class struggle and intensification of contradictions proper to the post-war Yugoslav industrialisation under the social property regime. It is a state-led process in as much as the systemic change could take place on the basis of the use of non-economic means of state violence. Although driven by internal socio-political dynamics, neoliberal primitive accumulation was also a globally co-constituted process and various developments that paced the realisation of global capitalism on the international scale further fuelled domestic antagonisms. With respect to Slovenia, the neoliberal primitive accumulation unfolded during the explosion of the debt crisis in the 1980s when Yugoslav socio-economic and political structures and relations started to be remodelled and restructured under the WCA and the participation of the international financial organisations in domestic policy-making. Whereas the neoliberal primitive accumulation could not be reduced to only one measure and/or dimension, various "moments" nevertheless followed three main directions, i.e. the introduction of a capitalist private property regime; the creation of new market outlets and the reorganisation of territories and socio-economic structures to expand the profitability logic; the formation of a new (capitalist) state that would secure private property claims and the integration of "its" formal territory in global capitalism.

Figure 6 **... to Eurozone peripheral capitalism**



Thus, the main outcome of the neoliberal primitive accumulation in Yugoslavia was to "inject" into the world market a new territory of capitalist private property regime politically secured by the post-socialist Slovenian state. This does not mean that the neoliberal primitive accumulation ended; yet its various "moments" were henceforth much influenced and complemented by the dependent integration of the infant capitalism in Slovenia in the European politico-economic space (Figure 6). The dependent integration helped secure, economically and politically, the development of capitalism in the region after the systemic reshuffling.

Dependent integration is defined as a process of the deepening of political and economic dependency of post-socialist states on the European structures. As Figure 6 indicates, the process unfolded as a consequence of a specific internal-external interplay: on the one side, the need of a nascent post-socialist capitalist state to secure economic expansion and legitimate the formation of new property structures and relations, and on the other, by changing international conditions related to the neoliberal makeover of the European integration project. Dependent integration is a two-fold process that took place through a particular state-building of nascent capitalist states in the post-socialist region and the international re-integration of “their” respective national economies.

The developments on these two, “internal” and “external” levels of post-socialist capitalism were influenced by the European regulations that acted as mechanisms of its peripherisation. With respect to Slovenia, which became a full EMU member in 2007, full-blow liberalisation of trade and capital flows, strict enforcement of competition policies as well as regulations framing the adoption of common currency were favourable for the dependent integration of the Slovenian economy in the international flows of trade, productive and money capital. At the same time, the Slovenian state-building has been shaped by the uneven transfer of state regulations and a partial de-territorialization of macroeconomic policy-making on the European level, especially in the field of monetary, fiscal and competition policies. This processes not only tended to insulated macroeconomic policy from democratic accountability and popular pressures but were also favourable to the weakening of the capacities and power of pro-labour actors and institutions in domestic policy-making processes. The Eurozone peripheral capitalism in the post-socialist region is therefore characterized by dependent political and economic integration in the European politico-economic space, nationally “incomplete” and partially remade and de-territorialized state institutions in line with the EU/EMU regimes that favour or facilitate the subordination of wage-labour nexus to the concerns over competitiveness and monetary and financial issues.

This theoretical view on the double post-socialist transition from neoliberal primitive accumulation to Eurozone peripheral capitalism is taken as the main guiding frame for the analysis of the political economy of Slovenia. The historical analysis is therefore undertaken in three steps and analytically framed by three periods: the role of the demise of Yugoslavia through the neoliberal primitive accumulation (1979–1989) on the restoration of capitalism in Slovenia is discussed first (Chapter 4); the next chapter focuses on dependent, economic and political, integration of nascent Slovenian capitalist state in the EU/EMU regime (1990–2007); finally, The last chapter discusses the characteristics of peripheral capitalism in Slovenia through the unfolding of the Slovenian Eurozone crisis (2008–2015).

4. THE DEMISE OF YUGOSLAVIA THROUGH NEOLIBERAL PRIMITIVE ACCUMULATION

1979–1989

Introduction

The emergence of capitalism within the formally independent Slovenia in the early 1990s was not inevitable; however, it was not accidental either. Although Yugoslavia[6] experienced the most difficult socioeconomic crisis of its post-war industrialisation in the 1980s, the state started to collapse just "when the first hopes for a democratic and economically stable society emerged" (Jović 2009, 17). Moreover, the development of Yugoslav productive forces was embedded in an institutional hybrid of "market socialist self-management" that created several spheres of political activity and a society characterised by internal divisions and factional conflicts; the formation of political coalitions and gaining the popular legitimacy necessary for a systemic and political change were, therefore, all but evident. Last but not least, as a consequence of Yugoslavia's peculiar geopolitical status within the Cold War regime, as well as the global uncertainty related to the fall of the Berlin Wall and to Gorbachev's announcement of *perestroika* and *glasnost*, taking place just at the time when the

[6] During the period studied (i.e., between the mid-1970s until the early 1990s), the Socialist Federal Republic of Yugoslavia was a federation of six republics (Slovenia, Croatia, Macedonia, Bosna and Herzegovina, Serbia, and Montenegro) and two autonomous provinces (Vojvodina and Kosovo), with a population of 23,556,000 and a per capita income of US$ 2,476 in 1988 (OECD 1990, 1). In regional terms, Vojvodina and Kosovo were part of Serbia; however, they were accorded autonomous status to comply with the ethnic composition of the local population. The provinces could use a veto on all issues that affected them, meaning that Serbian leadership was not in a position of exercising full control over republic-level affairs (for more on national question and political system in Yugoslavia see Hayden 1992, 665, Samary 1994, 55-57). For these reasons, this analysis uses the term "Serbia proper" when referring to Serbia without its autonomous provinces. With respect to the structure of the economic system, the Yugoslav economy was separated into two sectors, a social one and the private one. Assets in the social sector were neither tradable nor owned, and were managed according to the principles of workers' self-management (see Section 4.1.4). Self-employed producers in the private sector worked with their own assets and could employ a limited number of other workers. The vast majority of Yugoslav economic growth was based on social production (90%), whereas the bulk of private sector activity remained limited to smaller-scale agricultural production and services.

dominant European states had renewed the project of European integration, the political independence of Slovenia was far from enjoying unanimous international support.

A review of post-war Yugoslav historiography, however, is not the main purpose of this discussion. Instead, departing from the analytical assumption that the system established in post-war Yugoslavia was a non-capitalist one, the chapter contextualises the initial phase of the Slovenian transition toward peripheral capitalism within the demise of Yugoslavia through neoliberal primitive accumulation. The main aim here is, therefore, to identify the main factors, "drivers" as well as the key issues at stake behind the fundamental rupture in the development of Yugoslav productive forces that was the *conditio sine qua non* for the emergence of peripheral capitalism in Slovenia.

The restructuring of the Yugoslav social formation under the WCA provided a background to a belligerent dismembering of the Yugoslav state: at the turn of 1991, a state that, for the most of its post-war history, was acknowledged for having successfully formed a multinational, multi-religious and multi-linguistic country collapsed in a set of war that took place until 1995 and then, again, during a short period in 1999 (Hayden 2013, IX). For analytical reasons, the belligerent aspects of the demise of Yugoslavia through neoliberal primitive accumulation are not discussed here.

In a similar vein, for analytical reasons, the process of neoliberal primitive accumulation is framed between 1979 and 1989: in 1979, the plummeting current account deficit revealed the unsustainable character of the Yugoslav past industrialisation and called for another wave of institutional changes; in 1989, the first cycle of systemic reforms ended – and gained final constitutional grounds a year later (Prinčič and Borak 2006, 563-77). To facilitate the understanding, Table 2 provides the main information on political and socio-economic dynamics that shaped mandates of different federal governments during the 1980s crisis.

The chapter proceeds in two steps. The restructuring of Yugoslavia the WCA is studied first. Then the analysis focuses on the contradictions of the crisis policy-making that led to the political separation of Slovenia.

Table 2 **Political and socio-economic dynamics, Yugoslavia, overview, 1978–1989**

FEDERAL GOVERNMENT	ECONOMY[b]	MACROECONOMIC STABILISATION PROGRAMMES	STRUCTURAL REFORMS	POPULAR CONTESTATION
May 1978 – May 1982 VESELIN ĐURANOVIĆ	1979–1981 GDP growth: 3.5% Inflation: 31% Debt-to-GSP ratio: 17.6% Registered unemployed 0.799 million	• Prime minister's proposal for currency devaluation	/	• 1981 Kosovo protests[c]
May 1982 – May 1986 MILKA PLANINC	1982–1985 GDP growth: 0.5% Inflation: 50% Debt-to-GSP ratio: 40.7% Registered unemployed: 0.97 million	• 1981: Formation of the Kraigher Commission • 1983: Long-Term Programme of Economic Macroeconomic Stabilisation • 1985: Economic Resolution	/	• smaller-scale wild-cat strikes
May 1986 – Mar. 1989 BRANKO MIKULIĆ	1986–1987 GDP growth: 0.3% Inflation: 135% Debt-to-GSP ratio: 31.5% Registered unemployed: 1.115 million	• 1988: "May Measures"	• Adoption of a real-interest-rate policy • Abolition of self-management and social property regime • Industrial price liberalisation • Import liberalisation	• Tuzla workers' marsh (BiH) • Zemun workers' march (SRB) • Titograd workers' march (MKD) • Labin workers' marsh (CRO) • Ljubljana workers' marsh (SLO) • Vukovar workers' marsh (CRO) • Sarajevo workers' city blockage (BiH) • Maribor workers' city blockage (SLO)
Mar. 1989 – Dec. 1991 ANTE MARKOVIĆ	1989 GDP growth: 0.8 % Inflation: 1256% Debt-to-GSP ratio: 24.7% Registered unemployed: 1.256 million	• 1989–1990: "Shock Therapy"	• Establishment of independent central banking authority • Abolition of "self-managed" banking sector • Privatisation • FDI liberalisation • Currency convertibility • Public utilities price liberalisation	• Trepča workers' hunger strike (Kosovo) • Trade unions' call for general strike (failed) • Mass protests under nationalist banner (since 1988)

[a] In 1990 free elections took place in republics and the newly elected governments started to frame their own economic systems meaning that the federal government effectively lost all regulatory powers and that Yugoslavia ceased to exist as a function politico-economic unity (Mencinger 2004, 70).

[b] Annual averages.

[c] In April 1981, mass demonstrations, led by the local Albanian population, took place in towns and villages in Kosovo. The province was put *de facto* under a state of emergency, accompanied by harsh police repression. Since this chapter focuses in particular on the second half of the 1980s, the role of the early Kosovo protests in the 1980s economic and political crisis is not discussed. For more information see Magaš (1993, 6-48).

4.1. Remodelling of Yugoslavia under the Washington Consensus

Neither the economic crisis that emerged at the beginning of the 1980s, nor the reform process in itself, were a novelty in the post-war development of productive forces within Yugoslavia. Particularly after its formal separation from the URSS, Yugoslavia represented "one of the world's true laboratories of socio-economic experimentation" (Lowinger 2009, 48). Therefore, it was a particular set of internal and external pressures, proper to historical developments of the 1980s debt crisis in Yugoslavia that created conditions for the unfolding of neoliberal primitive accumulation. Therefore, this section proposes to study the remodelling of Yugoslavia under the WCA, with a special focus on the agendas of main institutional actors involved in the policy-making concerning the repayment of the Yugoslav foreign debt. While formally seeking to attenuate the crisis hardship and make the Yugoslav state capable of reducing its foreign financial obligations, the so-called structural adjustments programs were actually one of key "idyllic methods" of neoliberal primitive accumulation.

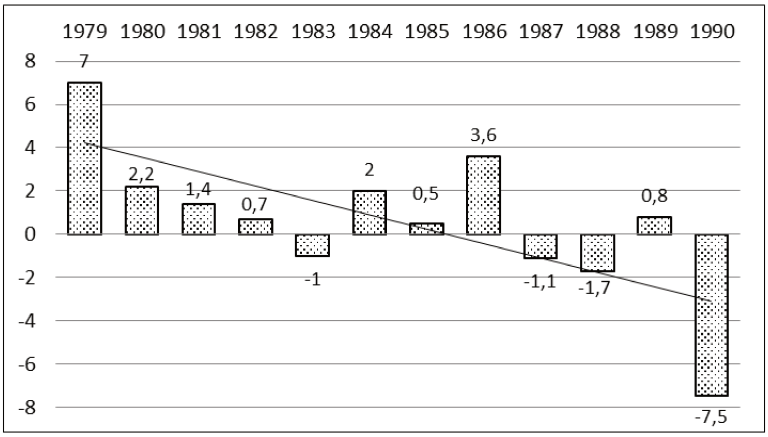
And although the country's financial obligations to creditors from capitalist countries caused the IMF to become an actor on its own in Yugoslav policy-making and despite the overwhelming agenda to liberate market forces from any social and political interference, the systemic change was not externally imposed nor did it imply a reduction of the state as such. Instead, as argued here, the Yugoslav governments, the IMF, and the European Economic Community (EEC) primarily sought to recreate a strong, yet different Yugoslavia. The aim was to establish a state with centralised state apparatuses capable of securing private property claims and financial discipline, as well as the reconversion of production in favour of exports for the European capitalist markets. For all these changes to be introduced, nothing else than the major intervention and unprecedented mobilisation of the Yugoslav state legislative powers was needed.

The argument is set out in four steps. After considering the characteristics of the Yugoslav economic and financial crisis, the analysis turns to the dominant policy agenda promoted within the federal administration. The third part examines the role of foreign actors. Finally, major systemic reforms are analysed.

4.1.1. The Yugoslav economic and financial crisis

In the 1980s, Yugoslavia faced the most severe economic hardship in its post-war period: whereas between 1960 and 1980 the real GSP[7] per capita grew by 5% on average each year, during the 1980s it remained depressed (–0.2%) (OECD 1990, 34). As indicated by the trend line in Figure 7, starting at the end of the 1970s, the country plunged into a constant decline. The economic growth slowed down rapidly between 1979 and 1983, when it turned negative for the first time in the 1980s. After a slight recovery in the middle of the decade, peaking at 3.6% of GSP growth in 1986, Yugoslavia headed toward an even sharper downturn than experienced in the first half of the decade: between 1987 and 1989 the economy contracted by 1.2% on average each year, and in 1990 GSP fell by a stunning 7.5%.

Figure 7 G**SP growth, Yugoslavia, 1979–1990, %**



Note: For 1989–1990 only estimates are available.
Sources: 1979–82 (OECD 1985, 19), 1983–85 (OECD 1988, 24), 1986–88 (OECD 1990, 17), 1989–90 (World Bank 1991b, 10).

The growing economic hardship was accompanied by the changing predominant form of the crisis, evolving from the current account crisis into a sovereign debt crisis and, finally, hyperinflation. Although the exacerbation of the crisis throughout the decade reflected both the structural weakness of the pre-crisis growth as well as to the chosen economic policy to counteract the economic hardship, the extent to which non-economic factors strengthened the

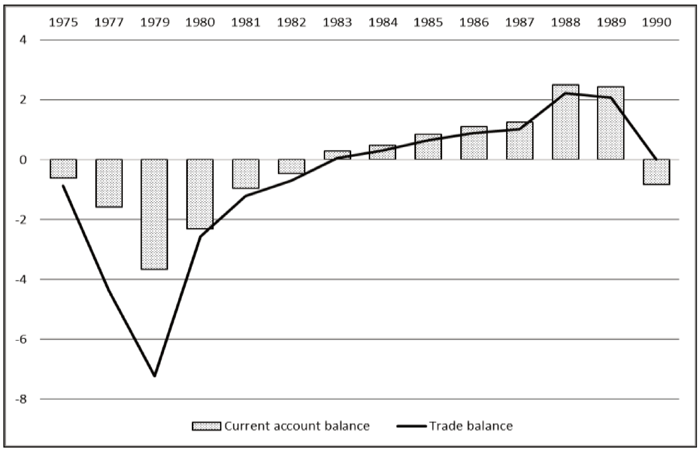
[7] Gross social product (GSP) is the Yugoslav equivalent of the total value added in goods, plus those services considered productive inputs. According to the OECD explication, "GSP excludes 'non-productive' services, comprising financial institutions (banks, insurance companies, etc.), education, health, social protection, administration (various levels of government), liberal professions, cultural and recreational services, and a few personal services. [During the 1980s] GSP was about 6% below GDP. The main differences on the expenditure side is the exclusion of non-productive services from private consumption and of the wage and salary bill of the public sector from government consumption" (OECD 1988, 80).

depth and the reach of the crisis is only mentioned in passing here and will be discussed further in the next section. The following analysis seeks mostly to provide a basic background of economic and financial difficulties that were used as an opportunity to reorganise Yugoslavia within the WCA.

4.1.1.1. Current account crisis

The Yugoslav "crisis had its roots in the attempt to bridge the chronic current account deficit and to modernise the economy through capital goods imports, which incurred external debt in the 1970s" (Becker 2017, 4). Indeed, as indicated by Figure 8, starting in the mid-1970s the Yugoslav balance-of-payment situation worsened steadily. After the second oil price hike, the country's deficits on the current account bottomed out at US$3.6 billion in 1979. Nevertheless, severe import restrictions, several devaluations of the dinar, and the upturn of the demand in the OECD countries for Yugoslav exports helped curb the deficit rapidly. In fact, as early as 1983, the country started to accumulate current account surpluses that by 1988 exceeded US$ 2.4 billion.

Figure 8 **Current account and trade balance, Yugoslavia, 1975–1990, US$ billion**



Sources: 1975 (World Bank 1988, 430), 1977–1979 (OECD 1988, 110), 1980–1990 (World Bank 1991a, 242).

Consequently, the balance-of-payment situation of Yugoslavia for most of the 1980s was much better in contrast to the previous periods: between 1965–73 and 1974–80 the country recorded deficits of 0.4% and 3.1% of GSP, respectively; in contrast, the average overall balance of the 1980s was stable with a surplus standing at 1.6% of GSP (OECD 1990, 34). This improvement was mostly achieved against the background of a strong contraction of domestic demand and imports. In contrast, a rapid increase of deficit in 1990 was driven mainly by the liberalisation of trade and consequent rapid increase in imported and cheaper consumer goods (see also below).

As already mentioned, increasing imports of foreign technology, raw materials, and consumer goods, which fuelled the current account deficit in the second half of the 1970s, were mostly financed by cheap petrodollars (Lampe, Prickett, and Adamovic 1990, 156). The Volcker's interest rates hike in the early 1980s, therefore, set the stage for the stage of the Yugoslav crisis.

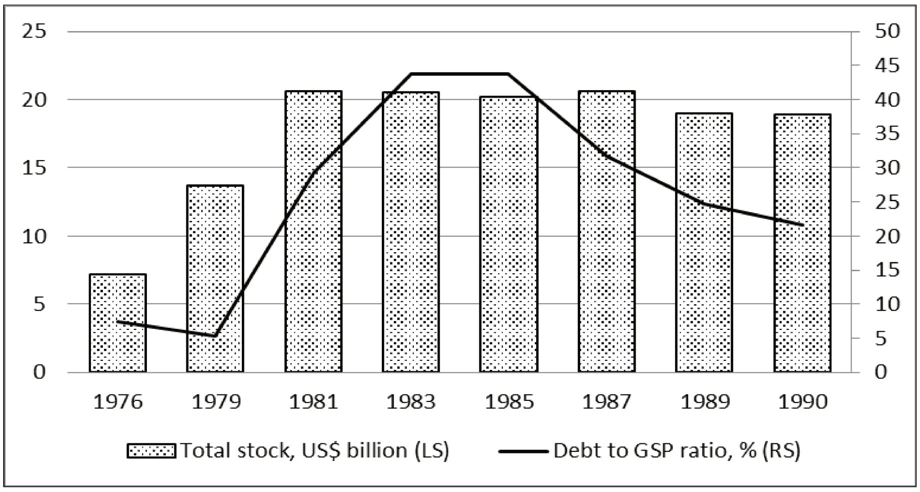
4.1.1.2. Foreign debt crisis

Increased economic and political decentralization, introduced by the 1974 Constitution further discussed below (see Section 4.1.1), as well as the developments of international financial markets favouring the recycling of petro-dollars allowed the Yugoslav leadership to use cheap foreign loans as a solution to overcome a constant balance-of-payments problems, related to import substitution modernisation of productive structures (Samary 1988, 235-65). By the end of the 1970s, more than three out of every four loans were made with private creditors (World Bank 1985, 298) and were denominated in US dollars (Woodward 1995b, 253). The accumulation of foreign debt gained momentum after the two oil shock, the increases in interest rates and the recession in dominant capitalist economies (Mrak and Arhar 2004, 100): in 1981, the absolute level of external debt peaked at US$ 20.6 billion (see Figure 9). A year later, when the debt-to-GSP ratio was still below 30%, the Yugoslav government declared itself incapable of servicing the country's external financial obligations (Pirjevec 1995, 360-362).

Nonetheless, after 1986, the burden of foreign indebtedness partially attenuated. By 1989, the debt-to-GSP ratio as well as the absolute level of foreign debt were brought below their 1981 levels – and this despite a major economic contraction, observed above. Štiblar (1991, 745) observes that in the second half of the decade, "[i]t [was] completely clear that, according to the […] criteria of the World Bank, Yugoslavia could not be considered a hard debtor by any of them". For these reasons, he (Štiblar 1991, 745) states that Yugoslav foreign indebtedness was not critical anymore at the end of the 1980s, when, in addition, the country was "placed […] virtually in a class by itself among debt-plagued countries" (Dyker 1990, 183). In contrast to other countries, Yugoslav governments regularly covered interest payments and decided to retire the country's principal debt in the mid-1980s (Borak 2002, 156).

A similar observation about the Yugoslav outstanding position can be made with respect to the country's internal imbalances; by the end of the 1980s, the country recorded one of the most severe hyperinflation situations at the international level (OECD 1990, 81).[8]

Figure 9 **External debt, Yugoslavia, 1976–1990, US$ billion and % of GSP**



Note: Data vary among reports.
Sources: 1976–1979 (World Bank 1985, 298), 1980–1984 (World Bank 1988, 430), 1985–1990 (World Bank 1991a, 242).

4.1.1.3. Stagflation

Important price rises were a common feature of Yugoslav post-war development; nevertheless, these rises exploded during the 1980s, as indicated by Table 3. Despite stagnant activity and a significant fall in real net average earnings, inflation stood on average at over 211% each year. Contrasting sharply with the disinflationary trend in leading European economies (OECD 1985, 13, 1990, 34, Samary 1988, 268), inflation gathered momentum in the second half of the decade, following a temporary economic rebound in 1986, and by 1989 the inflation spiral reached four digits after the failed implementation of the first anti-inflationary programme in 1988. It was therefore only after the second, more comprehensive,

[8] The Yugoslav developments in the second half of the 1980s bear some resemblances to the hyperinflation situation of four other major debtor countries at a stage of development similar to that of Yugoslavia and that implemented anti-inflationary programmes negotiated with the IMF in the second half of the decade. In the month of the beginning of inflation-targeting measures, only Bolivia (66% in August 1986) had higher monthly consumer-price inflation than Yugoslavia (59% in December 1989), followed by Argentina (32% in June 1985), Israel (15% in July 1985), and Brazil (14% in February 1986, OECD 1990, 81).

and thorough stabilisation programme, implemented in late 1989 and early 1990, that the price hike was brought under control, but still remained very high.

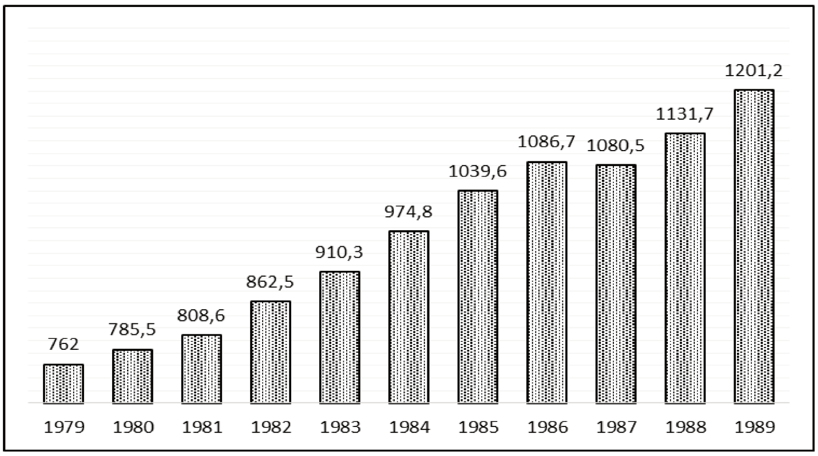
Table 3 **Inflation in Yugoslavia, 1981–1990**

	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990[a]
Cost-of-living change index, %	40	32	41	53	74	89	120	195	1252	100

[a] 1990 covers change from December 1989 to October 1990.
Sources: 1981–1989 (OECD 1988, 19, 1990, 15), 1990 (World Bank 1991b, viii).

The persistent upward trend on price and living costs was related to the expansion of inter-enterprise loans short-circuiting the bank system, a devastating drought in 1982, but mostly to the effects of the stabilisation programs implemented since 1987, combining price liberalisation with currency devaluation, cuts in subsidies and stricter monetary policy (Samary 1988, 267-69, Dyker 1990, 145,171, Magaš 1993, 95-96, OECD 1987, 11, Podkaminer 2013, 13).

Figure 10 **Unemployment, Yugoslavia, 1979–1989, '000**



Source: Statistical Yearbook of Yugoslavia, various years, in Woodward (1995b, 383-85).

In fact, starting in the mid-1980s, Yugoslavia was trapped in a vicious circle of stagflation (Yarashevich and Karneyeva 2013, 270), a macroeconomic phenomenon experienced first by dominant capitalist economies in the 1970s, in which high rates of inflation are accompanied by sluggish growth and a growing number of job seekers. As can be seen in Figure 10, the number of unemployed rose steadily throughout the 1980s in contrast to the negative trend of GSP growth, discussed above. Between 1979 and 1989, the number of unemployed workers grew by two-thirds to include over 1.2 million people. In 1989 more than half of the registered unemployed were under twenty-five; almost a million workers were unemployed for longer than one year, half of whom for more than three years (Woodward 1995b, 380-86). The increasing natural growth rate of the active population, a rural surplus, and workers returning from abroad largely outpaced the sluggish growth of social sector employment (Samary 1988, 265). After rising steadily in the first half of the decade, the expansion of registered job seekers was temporarily halted by the economic recovery in 1986. After 1987, however, the implementation of the first systemic reforms allowing for dismissal of workers provoked a rapid increase in unemployed persons.

Overall, thus, during the 1980s Yugoslavia faced the most difficult economic crisis of its post-war development since "in 1989 [its] GDP was essentially where it had been in 1979" (Gligorov 2004, 22). With respect to its macroeconomic characteristics, the 1980s crisis can be divided into three different periods, which roughly corresponded to changes within the federal office: soon after taking power, Prime Minister Veselin Đuranović (1977–1982) faced a plummeting current account. Although the balance-of-payments situation was rapidly stabilised, changing international conditions skyrocketed the accumulated foreign debt. When the federal leadership passed to Milka Planinc (1982–1986), Yugoslavia found itself on the edge of bankruptcy. The Planinc administration succeeded in partially alleviating the burden of external indebtedness, but set in motion an inflation spiral that dragged the country toward stagflation.

The fight against hyperinflation was the prime concern of the last two Yugoslav governments; Branko Mikulić (1986–1989) failed to stabilise the economy and was obliged to resign after only two years. Administration taken over by Ante Marković (1989–1991), who implemented most though and all-encompassing stabilisation programme; although this programme substantially reduced price hikes, this came at the price of the unprecedented economic collapse and the explosion of regional disparities in production structures. Although the Yugoslav 1980s crisis "mirrored the crisis that a number of countries were going through in both the capitalist and the socialist world" (Gligorov 2004, 22), it paved the way toward a major systemic and political change. To understand this outcome, the policy agenda proposed by dominant local and international actors to counteract the crisis should be studied now.

4.1.2. The neoliberal turn of Yugoslav reformists

Yugoslavia had dual governance system, composed of government (Executive Council) and Communist Party structures. The agenda of the latter is studied in the next section and the discussion here deals with the policy measures promoted by the federal government, the policy-making institution that was most directly involved in economic policy (Jović 2009, 150) and was responsible for negotiations with foreign creditors (Woodward 1995a). The analysis seeks to demonstrate that the systemic change and the reorganisation of the Yugoslav social structures within the WCA should not be seen as a mere reflection of the external pressures, but were instead produced internally. At the level of macroeconomic policy, a shift in favour of the neoliberal principles of the WCA was strongly promoted by domestic scholars with strong neo-classical economic expertise that started to dominate in governmental working committees.

4.1.2.1. *Post-war internationalisation of Yugoslav economic expertise*

Building on a genuine model of socialist self-management, the post-war Yugoslav leaders paid particular attention to professional experts, in particular in economics, that enjoyed substantial authority in proposing legislative changes, investment projects, and so on. Starting in the early 1950s, the Yugoslav leadership sent researchers on fellowships to the main capitalist countries, such as the United Kingdom, France, Italy, and the United States,[9] with the goal of developing experts for the new system. In the 1960s, Cornell University became a centre for workers' self-management studies; in 1976, at the initiative of George Macesić, an economist of Yugoslav origin, Florida State University founded the Centre for Yugoslav-American Studies, Research, and Exchanges, where several economists from Yugoslavia held regular conferences. Many of them shared a neoclassical profession with American advisors and had actual work experience in market transitions (Bockman 2011, 85-86).

Moreover, because the country was at the forefront of the non-aligned movement and was a member of numerous intergovernmental organisations (the United Nations, the IMF, the General Agreement on Trade and Tariffs, and many UN agencies), Yugoslav state representatives and various experts joined the regular staff and participated in discussions

[9] Among the most frequented were Harvard University, Columbia University, MIT, University of California, Berkeley, and Stanford University.

(Bockman 2011, 87-100, 198). Jože Mencinger (2004), a Slovenian economist holding a doctorate from the University of Pennsylvania and appointed as minister of the economy in the first Slovenian government, remarks that "[u]nlike other socialist countries, SFR Yugoslavia had been an open country; many economists had studied abroad, acquiring a solid understanding of mainstream Western economics […] Most had participated in rather free debates on economic reform in the 1980s" (Mencinger 2004, 76).

Similar observations can be made for the members participating in discussions and meetings of the US-Yugoslav Economic Council (USYEC), which represented another important channel for internationalisation of management practices and knowledge. Launched in 1974 by the United States Commerce Department, the USYEC was a partner organisation of the Yugoslav Chamber for Promotion of Economic Cooperation with the United States. Both organisations aimed to facilitate business networking and information sharing between business persons and representatives from each government. Annual meetings became politically important in the 1980s, when they transformed into forums of negotiations between political and economic elites from both sides of the Atlantic: whereas Yugoslav representatives were looking to increase their exports to the United States, the American ones pressed for further liberalisation of the Yugoslav foreign capital policy, particularly with respect to patent and copyright laws, foreign exchange relations, and joint venture legislation (Lampe, Prickett, and Adamovic 1990, 147).

Internationalisation of economic experts with a solid network in dominant ideational and policy-making institutions, as well as in economic organisations dominated by capitalist states, meant that a neoliberal turn in the Yugoslav macroeconomic policy had a solid ideological internal basis. In the early 1980s the neoliberal macroeconomic shift also gained its first institutional grounds within policy-making bodies with the establishment of the Kraigher Commission.

4.1.2.2. Promotion of "rational decentralisation"

According to Jović (2009), the first signs of the shift in the Yugoslav macroeconomic setting appeared as early as the beginning of 1980. The prime minister of the first "crisis" government, Veselin Đuranović, "announced 'radical measures' to accompany the devaluation of the dinar" (Jović 2009, 151). Although at that time this policy advice was rejected by regional political leaders, as well as by Tito himself (Repe 2002, 412), the government succeeded in setting up a new working committee that played a crucial role in the formation of a widespread consensus on the policy change (Repe 2002, 137, Géraud 2006, 218, Prinčič and Borak 2006, 508).

In the autumn of 1981, the Kraigher Commission (KC) was established, named after its leader Sergej Kraigher, a Slovenian politician with a liberal orientation. This inaugurated a new era in adviser groups of the federal administration, mainly composed of young university scholars with considerable economic expertise and directors from large export-oriented enterprises (Géraud 2006, 217). First joined by forty-nine members more than three hundred highly qualified economists, but also politicians, would later participate in the KC's work. During the 12th Congress of the LCY in 1982, some commission members openly commented that only a radical shift toward a market economy could provide a solution to the Yugoslav economic crisis (Borak 2002, 173).

In their final policy proposal, the KC proposed establishing an "integral market" – that is, a common Yugoslav labour and capital market within the framework of the social property regime – and further integrating the "Yugoslav economy into the international division of labour"; that is, to reorient domestic production to capitalist markets and foreign price competition (Woodward 1995b, 254-55). To boost interregional integration, the KC called for the "rationalization of decentralisation," as Géraud (2006, 219) puts it; the enhancement of market regulation at the expense of a plan, the introduction of world market prices, the convertibility of the Yugoslav dinar, and the establishment of strict controls of bank loans were seen as the prime means to "rationalise" the Yugoslav production (Prinčič and Borak 2006, 510). The KC's conclusions, incorporated in the 1983 Long-Term Programme of Economic Stabilisation, served as a basis for the negotiations between the federal government of Milka Planinc and the IMF.

In the second half of the decade, the initial work of the KC was continued by working groups set up by the Mikulić and Marković governments. Similarly to the KC, these reform committees were mostly composed of economists with a university career and international connections (Borak 2002, 172, Bohinc 1989). Mikulić's commission for reforming the economic organisation made some crucial steps forward in shifting Yugoslav policy toward systemic change: it called for abolishing the "non-property" concept of social property, recognising that those that provide capital are entitled to management and profit sharing rights, and reducing the role of the workers' council in enterprises (Mencinger 2004, 69, Prinčič and Borak 2006, 544-55). Moreover, the Mikulić administration put an end to composition principles of federal offices as designed by the post-war Yugoslav leaders that paved the way for experts, scholars, and technocrats to be able to dominate in federal administration (Pirjevec 1995, 378). For Géraud (2006, 217), the team particularly representative of the new generation of leaders was the one closest to Ante Marković, the last prime minister of Yugoslavia, who had an engineering degree and professional experience in managing one of the largest Yugoslav enterprises.

Speaking of local scholars and experts, it should be stated that by the end of the 1980s the position of pro-market economists was reinforced by influential scholars from other social sciences, such as law and sociology, mostly from the northern republics (Woodward 1995b, 337).[10] While still advocating self-management, they increasingly considered that it could only function in the context of a "market economy" and private property regime that would leave a place for "entrepreneurial innovation and creativeness" (cf. Županov 1989, 1396-97). Moreover, the policy recommendations formalised within government working committees should not be seen as a mere continuation or intensification of the already existing liberal characteristics of the Yugoslav economic system and ideology (Samary 1988, 165-66, Woodward 1995b, 166-67), but as a thorough abandonment of Marxist liberalism in favour of neoliberalism, as highlighted by Močnik (1995, 108).

4.1.2.3. *From Marxist liberalism to neoliberalism*

During the previous adjustments to economic hardships and changing international conditions, Yugoslavia integrated into the global market substantially more than was the case in other socialist countries under the USSR's dominance, and it allowed the market to determine enterprises' income. Nevertheless, this liberalism went hand in hand with greater domestic control and protection of what was considered essential for preventing dependence on market and economic sovereignty at home: social ownership, no market for factors of production (capital and labour), and nonconvertibility of the currency (Woodward 1995b,

[10] For instance, the Slovenian sociological association held a conference on the "formation of a labour market" in Ljubljana in October 1982, a conference that was also attended by prominent Croat scholars, the economist Branko Horvat, and the sociologist Josip Županov (Woodward 1995b, 337). Another crucial event was the conference What to Do for the Economy to Become More Market-Oriented, held by the Slovenian Chamber of Commerce in 1988. Prominent economists and lawyers proposed several concrete policies for introducing a market economy, which was considered the only viable alternative to the state administration and economic intervention. In 1988, the conference contributions were published by the Chamber of Commerce in a collection with the same name.

173). In contrast, as early as the beginning of the 1980s, there emerged a widespread consensus among the Yugoslav leadership, in particular those that were directly linked to the management of foreign debt (i.e., the federal government), over the "westernisation" and "liberalisation" of the Yugoslav economy and its further "integration in the world division of labour" (Géraud 2006, 218, cf. Mencinger 2004, 76).

For Mencinger (1985), the 1983 long-term programme of the Planinc government marked a crucial break in government policy because it deviated from Kardelj's idea that the "socialisation of work and productive means under the direct political and economic control of workers […] is the starting point for directing market rules up to the negation of the market itself" (Mencinger 1985, 40). International media characterised Milka Planinc as the socialist "Iron Lady," whose neoliberal reformist persuasion could be compared to her English counterpart, Margaret Thatcher (Djokić 2015). As Samary (1988, 271) observes, "when the liberal market reform was first implemented in Yugoslavia, different actors and society could see it as an extension of their liberty. Now the reform will be imposed against them – against self-management, against republics."

By promoting the shift "from relations to the economy" (Mencinger 1985, 38, Prinčič and Borak 2006, 541-42) and from "social signals" to "price signals" (Woodward 1995a, 58), the dominant anti-crisis policy agenda was based on the assumption that profit was the optimal moving principle and that the labour market was the economically rational criterion for consumption, social expenditures, and mechanisms of negotiated redistribution (of wages, profits, taxes, and transfers). In a similar vein, the influence of various political and social forces in the organisation of the economy now became seen as the main barrier for the rising productivity and competitiveness of the Yugoslav economy (Woodward 1995a, 58-59, 98-99, Magaš 1993, 219, Géraud 2006). Indicative for this *neo*-liberal shift in Yugoslav macroeconomic policy and ideology was also the fact that the federal government, while encountering no troubles in composing new working committees for economic reforms, "has at the same time utterly failed in its attempt to establish a parallel commission for social welfare" (Magaš 1993, 190). In fact, while unemployment was perceived as a "youth problem" (Woodward 1995b, 333), social policy was "reduced to one of money: who will pay for the narcotic to be applied to the patient about to be subjected to a long and painful operation" (Magaš 1993, 175).

By highlighting that the neoliberal shift in Yugoslav policy was internally produced, this study does not argue that the international actors were insignificant during the 1980s crisis. It is not only that the IMF "was […] welcomed by the reformers within the Yugoslav political elites [because] they could use it in internal struggle against conservatives," (Jović 2009, 158) as further explored in the next section. The financial difficulties of the Yugoslav economy also allowed the representatives of the IMF, together with those of the EEC, to link the management of the debt crisis to the project of global capitalism and its regional guarantor, the European integration project.

4.1.3. Yugoslav debt management in the making of global capitalism

Throughout the post-war period, the development of production forces in Yugoslavia enjoyed substantial support from international organisations formed within the Bretton Woods agreement. Moreover, by the late 1970s, the country had established solid economic relations with leading economies of the European Economic Community (EEC) (Woodward 2003, 75). However, during the 1980s, the political strategies of both groups of international actors changed significantly; the following discussion examines how the IMF and the EEC, albeit with different mechanisms, took the financial difficulties of Yugoslavia as an opportunity to accelerate the country's integration into global capitalism via the European integration project and its disintegration from the CMEA arrangements.

4.1.3.1. Linking the Yugoslav debt crisis to the global capitalism project

The United States played a leading role in the management of Yugoslav debt. Once it became clear that Yugoslavia could not repay its debts, the US ambassador to Yugoslavia started lobbying within the US administration and encouraged it to take the initiative for orchestrating various actors in providing joint financial and policy support (Pirjevec 1995, 368). The representatives of the US also convinced international debtor states, united in the "Paris club," to grant new loan packages to Yugoslavia (Borak 2002, 151-52). Overall, the financial funds were assembled from sixteen countries and more than five hundred banks. The Manufacturers Hanover Trust Company, the largest Yugoslav bank creditor from the United States, set up an international coordinating committee of bank creditors from various countries, and three international financial organisations – the IMF, the World Bank, and the Bank of International Settlement – designed and coordinated financial funds.

On the behalf of lenders, the IMF started to monitor Yugoslav policy on a permanent basis; in fact, various public and private international creditors conditioned their participation in providing financial assistance on the preliminary agreement reached between the representatives of Yugoslavia and the IMF over the reform measures (Lampe, Prickett, and Adamovic 1990, 167, 170). Between 1979 and 1990, the Yugoslav governments signed three standby arrangements with the IMF (1979, 1983–85, 1988), one structural adjustment loan with the World Bank (1983), one enhanced surveillance procedure with the IMF (1986–87), and several rescheduling arrangements with official creditors and commercial banks (Borak 2002, 158, OECD 1990, 33-34).

Several authors state that the US initiative was crucial for Yugoslav developments; Borak (2002, 151-52) notes that the participation of many American banks and enterprises, as well as state agencies, in the Yugoslav investment projects led the US to engage in preventing the collapse of the Yugoslav economy. Lampe, Prickett, and Adamović (1990, 161) point to the geopolitical position of the country with its strategic importance to maintain the Balkan region outside the dominance of the USSR. Although economic and security motivations were without doubt important, it is nevertheless important to note that, by participating in the restructuring of the Yugoslav debt, the American representatives probably also sought to prevent a further destabilisation of the international financial system, threatened under the expanding debt crisis of “developing countries” (Panitch and Gindin 2012, 179-80).

In fact, the financial difficulties of Yugoslavia created an opportunity to link the reorganisation of Yugoslavia, triggered by the crisis, to the project of “realizing global capitalism”. International organisations – the IMF but also the EEC in particular – were the main institutional intermediators; through various channels they reinforced the bargaining position of those local social forces within Yugoslavia that called for greater market competition and the introduction of a private property regime, and favoured stronger economic relations with capitalist economies at the expense of socialist ones.

4.1.3.2. The IMF favours an export-oriented and financially disciplined state

The danger of a world financial crisis changed the lending policy of the main foreign financial institution that Yugoslav governments collaborated with: whereas throughout the post-war period the IMF and World Bank loans to Yugoslavia were conditioned very rarely, and there had been no penalties if the obligations were not met (Dyker 1990, 157), during the 1980s the financial assistance was conditional on specific policy measures based on the WCA[11] (Borak 1997, 517). With respect to socialist countries, these mostly sought to create new market outlets for private investment, to reinforce countries' fiscal and monetary discipline, and to accelerate the reorientation of socialist economies toward exports for capitalist markets. Samary (1988) succinctly draws the main lines of the IMF's economic policy concerning Yugoslavia, echoing those promoted within the KC observed above.

> [I]ncrease in interest rates, submission to global prices – with a temporary lifting of price freezes – a flexible exchange rate, and the financial discipline of enterprises [were] supposed to restrict internal demand and to reduce the money supply to provoke a fall in prices and the reorientation of production toward external demand. Only those enterprises and sectors that could resist the application of these "new management criteria" were supposed to exist. (Samary 1988, 268)

When inflation approached triple digits at the end of the 1980s, the Yugoslav government invited various international advisers, such as Michel Brune, Stanley Fischer, David Lipton, and Jeffrey Sachs. They were all well known for their participation in reform programmes promoting the so-called shock therapy approach that was implemented in one or another way in many of the indebted "developing" countries at that time (Prinčič and Borak 2006, 546-51). In fact, Jeffrey Sachs, who became one of the leading international advisers for the CEE region in the late 1980s and early 1990s, was visiting Yugoslavia and Poland in the same period; both countries played a pivotal role in the region in applying monetarist and supply-side anti-inflationary programmes, first "tested" in Latin American countries (Gowan 1999, 191).

The reinforcement of the "new management criteria" promoted by the IMF advisers depended, above all, on the regulatory capacities of the Yugoslav state. The promotion of the policies to shift the Yugoslav development strategy in favour of export-led industrialisation, privileging capitalist instead of clearing markets and price competition instead of contractual arrangements, went hand in hand with the demands for changes to the political system. In a

[11] For a comparison of policy recommendations included in various assistance packages, see Borak (2002, 267).

similar vein to the KC, the IMF considered decentralisation to be among the greatest causes of the crisis; it therefore sought to reinforce the decision-making and decision-implementing powers of the federal authorities, which were weakened in favour of the regions and provinces after the constitutional changes of the second half of the 1970s (Samary 1988, 247, Lampe, Prickett, and Adamovic 1990, 92, see also below).

Thus, to improve state capacities to repay its debt obligations, the IMF urged the socialisation of all foreign loan obligations, and required a state guarantee of all hitherto unguaranteed loans and the centralisation of foreign-exchange earnings within banks. Moreover, to create an institutional framework allowing the pursuit of tight monetary policy and a fight against inflation, the IMF urged the National Bank of Yugoslavia (NBY) to acquire independent status. This was intended to make the NBY capable of impeding money issuance by regional banks as well as to separate monetary policy from the concrete needs of enterprises (Rant 2004, 83, Borak 2002, 161-71).

Analysing the IMF's interventions in the Yugoslav policy-making space, Borak (1997, 518) wrote that "[i]t is ironic that the exportation of capitalism [was] a result of failed business decisions of those banks that were the most capitalist among market actors and that [went] in hand with the socialisation of the losses and the reinforcement of the interventionist role of the state" (see also Pirjevec 1995, 400). Thus, at least in Yugoslavia, it seemed that the neoliberal makeover of state apparatuses followed a double logic of weakening and strengthening the state (cf. Ivanova 2007, 360), combining the retreat of the state from its redistributive functions and its role of a crucial investor in productive sector with the reinforcement of those regulatory capacities and functions that would be able to impose financial discipline and also, as explained now, to guarantee private property claims.

4.1.3.3. *The EEC favours a foreign private-investor-friendly state*

In the second half of the 1980s, the leading economies of the ECC also entered the Yugoslav political discussions. After the failure of national strategies to combat stagnation and overcapacity problems, the EEC decided to relaunch the single market project and to open a new stage of monetary integration (scheduled to be completed in 1992). This reorganisation of the European institutions played a crucial role in the changed EEC policy toward socialist countries and the particular form of their forthcoming economic and political reintegration into European production networks (Ivanova 2007, 351-52).

The EEC together with the G-24 provided various sorts of funding to facilitate the establishment of regulatory frameworks that would guarantee contracts, secure private property claims, and accelerate the de-regularisation of the CMEA clearing market regime (Gowan 1999, 191, Ivanova 2007, 359). The proposed financial assistance comprised various packages, from investment projects to favourable trade arrangements. Completing the common market project implied a new round of trade negotiations with the neighbouring socialist states, opening for the EEC an additional door of opportunity to shape local transformation process. This was particularly true for Yugoslavia because, by 1987, the ECC's markets had become the prime source of the country's hard currency earnings. As further discussed in the next section, the concerns over the renewed economic protectionism of the EEC and the establishment of "Fortress Europe" (Lipušček 1988) were particularly strong within the Slovenian leadership, dominating the most export-oriented economic region in Yugoslavia (Snoj 1987). With respect to other forms of financial assistance, Yugoslavia obtained among other things: loans from the European Investment Bank and Community budget for transport infrastructure projects, such as the construction of the "Brotherhood and Unity" highway and the Karavanke Tunnel (Snoj 1988a, Ačimov Oblak 1989), and advisory activities, such as for the restructuring of the Slovenian car exporter TAM with the participation of the McKinsey consultancy group (Vodušek 1989). This initial aid of leading European capitalist economies, taking place at the beginning of the reform process in the socialist region "followed the old reflexes of the Cold War […] when it seemed to be a vital interest of the West to contribute to the disintegration of the Soviet bloc and provide incentives for the destruction of state socialism throughout the region" (Berend 1996, 335-36).

Nevertheless, at the end of the 1980s, the Yugoslav prospects for participating in the European integration project became increasingly precarious (Kraft, Cvikl, and Vodopivec 1996, 219). In late 1988 Božo Mašanović (1988), a *Delo* journalist, reported the following opinion of international observers: "Given the fact that Belgrade recognises the principles of non-alignment, that there still exists a one-party system, and that the economic crisis has deteriorated, this possibility [to join the EEC] is rather small." The rising economic and political instability of Yugoslavia made foreign economic and political actors reluctant to include the country in assistance programmes (Rupnik 1988), instead prioritising East

Germany, Hungary, and Poland[12] (Sedmak 1987). This probably also explains why the first all-encompassing programme for restructuring the CEE economies that the EEC launched together with the G-24 at the end of 1989 was intended to primarily include Hungary and Poland, as its name suggested: "Poland, Hungary: Assistance for Restructuring Economies," known as PHARE (Gowan 1999, 217-19).

Although their precise policy algebra differed, during the last years of the 1980s, the IMF advisors and the EEC representatives joined their efforts to facilitate a "gradual absorption of the states [from CEE] into the western economy, institutionalised in the various multilateral organisations and especially the EU. The end product would be a unification of Europe in a single (reformed) EU market" (Gowan 1999, 191).

4.1.4. State intervention and the restoration of capitalism

By 1988, more and more leaders in Yugoslavia came to believe that "being out of Europe is being out of common sense" (Snoj 1988b). At the 19th session of the Central Committee of the LCY in December 1988, Yugoslav political leaders agreed to adapt the Yugoslav system "to the standards of the EEC" (Repe 2002, 137, Prinčič and Borak 2006, 527-28) and gave a green light for the reforms that abolished the Yugoslav system, founded on the concept of social property. This very non-economic aspect of the restoration of capitalism in Yugoslavia under WCA is brought forward here. The re-introduction of capitalist private property regime did not have much to do with a pure interplay of market forces, nor did it derive from any transhistorical law of motion; instead, it resulted from the institutional violence of the state that separated economic and political rights of producers, as guaranteed by the 1974 Constitution. This separation provoked cross-sectorial triple-down effects that gained legislative grounds in a set of systemic reforms introduced mainly between 1988 and 1989.

It is beyond the scope of this analysis to provide an in-depth study of all systemic changes. Therefore, only those reforms are considered that are particularly relevant for the following discussion and that particularly clearly indicate the scope of the reconfiguration of political

[12] By 1988, Hungary, for instance, had already introduced a bankruptcy law, split the state monobank into a two-tier banking system, liberalised foreign investment, and launched a privatisation process (Myant and Drahokoupil 2011, 37). In a similar vein, in 1989 East Germany announced that it would change its constitution in order to abolish the political monopoly to the Communist Party (Sedmak 1989).

and economic spheres necessary for the restoration of capitalism in socialist Yugoslavia. Table 4 below shows the main features of systemic changes by distinguishing three institutional fields: the banking system comprises banks and the NBY, the productive units sector refers to the reorganisation of Yugoslav enterprises, and development strategy covers changes relative to protectionism from international competition. To emphasise the magnitude of changes, the reforms are analysed in line with proposed "sectorial" division, each time briefly outlining the main characteristics of the Yugoslav system. The following discussion thus brings forwards the structural, institutional particularities of the Yugoslav system, as defined at a formal level, and does not deal with the actual implementation of the regulations.

Table 4 **Selected systemic reforms, Yugoslavia, 1988–1990**

GOVERNMENT	SECTORS	STRUCTURAL REFORMS
Branko Mikulić 1986–1989	Banking system	Adoption of a real-interest-rate policy Abolition of consensual decision-making in banking bodies
	Productive units	Legalisation of various ownership forms Abolition of self-management
	Development strategy	Almost complete import liberalisation Progressive liberalisation of industrial products prices Establishment of a "unified" foreign exchange market
Ante Marković 1989–1991	Banking system	Transformation of the banks into shareholding companies Introduction of majority decision-making in the NBY Reinforcement of the NBY's independent status
	Productive units	Introduction of free wage-bargaining The liquidity position as the main criterion of a company's viability Restricting management rights to the capital owner Privatisation of socially-owned enterprises
	Development strategy	Liberalisation of FDI Convertibility of the dinar Abolition of all indirect price controls Liberalisation of public-utility prices

Sources: (OECD 1990, 46–52, World Bank 1991, vii, 4, 38).

For Woodward (1995b, 165, 275-80), the 1974 Constitution and its 1976 amendment in the Law on Associated Labour was a legal culmination of the political and economic arrangements founded in the concept of the social property regime, where business property did not belong to the state or to the individual workers. The Yugoslav system ceased to recognise labour as an actor separate from capital. Instead, it was built on the concept of property owners that – as producers of value – enjoyed the rights of political and economic decision-making.[13] This conception of political and economic interdependency also stood

[13] Recall that the mutual recognition of economic and political rights referred only to producers/workers in the public sector, whereas the political rights of those employed in the private sector remained limited to the local level (Woodward 1995b, 166).

behind the political decentralisation that transferred some essential tools of economic policies to the level of republics and provinces (and further down on the administrative levels), seen as workers' collective rights to control the economic resources and to dispose of revenues, profits, and capital gains (see also Samary 2017). The structural separation of economic rights from political rights and the legalisation of the unequal redistribution of decision-making powers of various participants in the production process were among the major structural breaks underlining the establishment of capitalism in Yugoslavia.

4.1.4.1. Establishment of a private property regime

The 1974/76 Constitution introduced a "contractual economy," in which direct government action and many market functions were replaced by "government by agreement". The main units of this system were BOALs ("basic organisations of associated labour"), which were a sort of subfirm, or constituent unit of a firm (or "work organisation") based on the technological and economic unity of the work process and characterised by considerable autonomy over the organisation of labour as well as the distribution of revenues. Yugoslav enterprise thus represented a federation of BOALs and could merge into COALs ("composite organisations of associated labour" (Horvat 1976, 39-40). Eventually, a "work organisation" or COAL merged in a joint venture with foreign investors. Yugoslavia set a precedent among the communist countries by allowing local producers to establish joint ventures with foreigners in the mid-1960s. The FDI legislation was, however, strict in the sense that a joint venture with foreign participation had to comply with the organisation based on the principle of self-management (Lampe, Prickett, and Adamovic 1990, 95).

The decision-making organised around self-management implied that formally all main decisions relative to enterprise had to be confirmed by the assemblies of all employees. Workers' councils were the central institutions that ensured the participation of direct producers in decisions over the redistribution of net profits between wages and investment (Woodward 2003, 76). In contrast to their peers from the capitalist economies, the trade unions mostly performed educational tasks and mediated among the various social groups and working collectives in the case of conflicts (Županov 1987, 269). The decision-making powers of managers were formally subordinated to quasi-independent BOALs and their respective workers' councils as well as to local political authorities. Moreover, the management staff was mostly appointed according to individuals' political record and educational qualifications, and the performance of enterprise and its profitability played a secondary role (Warner 1990, 211-12, 217-18, Lampe, Prickett, and Adamovic 1990, 79-81, 92-94).

Whereas each enterprise's earnings depended on the realisation on the market, investment, broader development issues, wages, and differentials were subject to "social compacts"; that is, various agreements that brought together all actors from the local community (self-managing community of interest) and were intended to minimise direct state intervention in the economy (Horvat 1976, 40).[14] The BOALs system would have functioned on the principle of collective solidarity; that is, if one BOAL operates at a loss, the risk is assumed by the COAL or municipality or, even beyond, the republic (Centrih 2014, 22, Lampe, Prickett, and Adamovic 1990, 94).

The first milestone in the abolition of the Yugoslav production system was posed by the Enterprise Law, adopted in December 1988, which established enterprise as a legal entity fully responsible for its own business operation, diversified legal forms, and ownership structure of enterprises, and accorded to the enterprises the right to earn incomes and/or profits. The law did not explicitly specify the role and rights of workers' councils in private or "mixed" enterprises (Warner 1990, 216, OECD 1990, 48). Moreover, although social enterprises were allowed to operate, their rights and duties were equalised with other firms, and the decision-making powers of the workers' councils were given to managers (World Bank 1991b, 78). The Enterprise Law also "de-socialised" enterprises from their community ties and control by excluding local authorities at the municipal level, and party organisations and trade unions from the appointment of the management staff. The management was now brought under the control of property-based bodies evaluating the management based on the economic performance of enterprises (Warner 1990, 219).

The Foreign Investment Law of 1989 accorded foreign investors similar rights enjoyed by domestic ones. They could set up a wholly owned company under different forms of ownership in various domains, except in strategic areas such as the defence industry (Warner 1990, 217), whereas the management rights depended on the capital provided. Time limits

[14] Social agreements comprise two sorts of agreements. On the one hand, self-management agreements were established between enterprises and other organisations in different areas of mutual interests, such as joint investments, transactions and deliveries, the foundation of enterprises and banks, and so on. On the other hand, social compacts were established between local government, business chambers, trade unions, and "work organisations" at various administrative levels. They concerned the broader planning of economic and social development, income, and income redistribution that was established.

fixed to the duration of FDI were abolished, the procedure for foreign investment approval was simplified, and the provisions regarding the repatriation of profits and capital, as well as capital guarantees were aligned with the OECD's common practices (Dyker 1990, 143, OECD 1990, 52).

The December 1989 Social Capital Circulation and Management Law, complement in the following year with the Social Capital Law initiated the transformation of socially owned enterprises into private ones by giving workers' councils the right to sell their enterprises to domestic and foreign buyers, individuals, or enterprises or to transform them into joint stock companies (Uvalić 1992, 184, Mencinger 2004, 70). "Internal shares" of enterprises were the main instruments of privatisation in which workers, citizens, and pension funds could purchase a limited value of shares at discount prices. An internal share gave the holder the right to participate in after-tax profits and in decision-making. The part of social capital not subscribed to internal shares was offered for sale to foreign or domestic investors and/or sold through public auction (Uvalić 1992, 185).

The abolition of the Yugoslav social property regime implied not only a change in the property rights but also the transformation of decision-making based on self-management and organised around workers' councils. The 1989 Industrial Relations Law reinforced managerial authority with the right to "hire and fire" and established a collective bargaining system in mixed and private enterprises in which trade unions became the key actor for negotiating the rights and obligations of the workers; later, these provisions were also to be applied in the social sector (Warner 1990, 216). The law also legalised the systemic exclusion of workers' representative from strategic decision-making that manifested in the translation of workers' council into work council (cf. Stanojević 2004a, 119).

Two additional pieces of legislation, enacted in 1989, strengthened the financial discipline and "hard budget constraint" within Yugoslav productive units. The February 1989 Act on Financial Operations postulated the liquidity position as the main criterion for assessing the viability of a company: the company was declared illiquid if expenditures exceeded accumulated resources (OECD 1990, 49) and bankruptcy procedures could be now triggered automatically (World Bank 1991b, vii). With the Law on Compulsory Settlement, Bankruptcy, and Liquidation, creditors and official agencies were granted substantial powers in initiating settlements and bankruptcy procedures (World Bank 1991b, vii).

For the World Bank, the overall 1988–90 measures in the enterprise sector "yielded major progress toward establishing a legal framework for enterprise ownership and investment in Yugoslavia which more closely resemble[d] the framework embodied by companies' law in advanced market economies" (World Bank 1991b, 4). In other words, with the establishment of market allocation of labour and capital, full foreign ownership with the repatriation of profits, and with the transformation of the decision-making powers in favour of capital, the Yugoslav state legalised the private property regime that underpins the capitalist system.

4.1.4.2. Establishment of a profit-oriented banking sector

The Yugoslav banking system[15] was not conceived as independent from the concrete financing needs of enterprises. Commercial banks[16] were not profit-oriented institutions, they were founded and managed by enterprises, and more or less played the role of intermediaries between the system of national banks, enterprises, and local political authorities (Samary 1988, 238-39, Dyker 1990, 63). The NBY, the central banking institution, "was designed to support two main economic sectors: agriculture and exports" (Rant 2004, 85). It was allowed to increase the volume of primary money for specific investment projects, when considered necessary, on the basis of a selective loan system (Rant 2004, 84-85). Consequently, loan policies and practices were lax; throughout the late 1970s, negative real interest prevailed. In fact, this interest rate even grew to double digits in the 1980s due to the inflation spiral (Dyker 1990, 146, World Bank 1989, 11).

In fact, after the 1974/76 Constitution, as Dyker (2004, 31) points out, "the National Bank of Yugoslavia became increasingly powerless to protect the national balance of payments". The banking system and monetary policy were decentralised: regional "central" banks were divested from the main bank in Belgrade and responsible for financing economic needs within the domestic republic/province. They were authorised to conduct business abroad, including borrowing from foreign banks, and the republics were responsible for meeting foreign debt

[15] Prior to the late 1980s reforms, the financial system of Yugoslavia consisted of the following institutional segments: 1) the banking system included a) the National Bank of Yugoslavia acting as a central bank, b) national banks of eight republics and autonomous provinces, c) the commercial banking system, d) savings banks, and e) the Yugoslav Bank for Economic Cooperation specialised in export finance; 2) insurance companies; and 3) investment loan funds for financing projects in less-developed regions (World Bank 1991b, 37).

[16] The commercial banking system was composed of basic banks, associated banks, and internal banks. Several basic banks were joined together to established the associated banks, which made borrowings for large investments and handled foreign exchange and loan activities. The internal banks put the pooled resources of small member enterprises (BOAL) into circulation and conducted the enterprises' payment operations and loan transactions (World Bank 1991b, 37).

obligations (Lampe, Prickett, and Adamovic 1990, 91, Rant 2004, 85). Similarly, whereas the decisions over monetary measures required unanimous approval of the governors of the republic- and province-level national banks that formed the board of the NBY, the implementation of agreed-upon policy measures was a matter for the republic-level authorities (Rant 2004, 84-85).

The first step toward the de-socialisation of the banking sector and the reinforcement of financial discipline was made when the Marković administration transformed voting powers in banks. Whereas before all members enjoyed similar voting power, the reform made voting power proportional to the capital invested (Uvalić 1992, 183-84). In addition, the "May 1988 Measures" introduced a strict monetary policy: interest rates were indexed to inflation and were set at 5% for short-term loans, whereas interest rates for selective loans were set on an equal base, also adjusted to inflation (World Bank 1989, 35-36, OECD 1990, 13).

Moreover, the Marković government also sought "to reduce bad loans, forcing banks to evaluate them from the standpoint of profitability, and to reduce local business or political pressures on the banks to lend to failing enterprises" (Lampe, Prickett, and Adamovic 1990, 197). The 1989 Banking Law transformed the commercial banks into shareholding companies and opened the opportunity for private actors to invest in bank equity (Lampe, Prickett, and Adamovic 1990, 197). With the 1989 NBY Law, and its 1990 amendment, the NBY became the main authority to issue and revoke banking licenses, it was empowered to require that banks maintain adequate capital and also to replace bank management if considered necessary by imposing stringent holding actions upon the operation of a bank (World Bank 1991b, vii, Uvalić 1992, 183). In addition, by abolishing the existing selective (subsidised) crediting and tightening conditions of the allocation of loans to commercial banks and the federation, the law reinforced the capacities of the NBY to control the money supply (OECD 1990, 49).

4.1.4.3. Abolition of developmental protectionism

In line with the development strategy of import-substitution industrialisation, Yugoslav leaders implemented various measures to encourage the industrialisation of the country by reducing its exposure to global competition. It is, however, worth recalling that after the accession to full GATT membership in 1966 the country partly liberalised its trade relations and price system. Although all exports were liberalised, except agriculture and goods related to the defence industry, an import licensing regime established various categories of goods on the criteria of domestic needs and other considerations that should be met if foreign exchange were to be provided for an imported good (Lampe, Prickett, and Adamovic 1990, 96). Moreover, a diversified system of prices was established with the 1965 reform, which introduced market prices for agricultural products sold to the private sector and liberalised consumer goods. Nevertheless, the prices of industrially produced goods remained regulated.

In the second half of the 1980s, most of these protectionist measures were abolished. The federal administration under Branko Mikulić accelerated the liberalisation of imports substantially in 1988. With the abolition of the conditionally free import regime and licences goods subject to restrictions decreased from 46% to 13%. The legislation also extended the rights to import to private companies and individuals (OECD 1990, 51). In the following two years, the direct and indirect regimes of administrated prices were abolished and the share of freely determined prices rose to 75%, excluding the prices of goods for power, postal, telephone, and telegraph services, railway traffic, metals, and medicines (OECD 1990, 12, Lampe, Prickett, and Adamovic 1990, 196).

The major break with the Yugoslav developmental protectionism was probably realised with the introduction of a convertible currency. In December 1989, the Marković government legislated the issuance of a new, convertible dinar, to equal ten thousand dinars of the former dinars. The international convertibility of the dinar, seeking to establish a direct link between the Yugoslav market and the global market, was a precedent within the socialist world: "For the first time in the CEE, the stabilised currency was made convertible by means of firmly tying it to the West German mark (1DM=7YD), and it served to push marketization even further by automatically implementing the world price system" (Berend 1996, 327).

In a nutshell, the structural reforms implemented by the Yugoslav administration between 1987 and 1991 contributed to the fact that "after forty-five years capitalism, came back to Yugoslavia" (Prinčič 2008, 97). What is more, in terms of the last government of the Socialist Republic of Slovenia, "the systemic framework built by the enterprise law, the banking law […] and others enabled the transition into more elaborate and appropriate forms of state interventionism into development processes" (The Executive Council of the Republic of Slovenia 1990b); the systemic reforms were therefore also indicative of the self-induced transformation of the Yugoslav state, of its relation to the market and its form of interventionism.

The emerging "contemporary state interventionism" (The Executive Council of the Republic of Slovenia 1990b) was built upon a very peculiar institutional mix that was revealing of the broader historical context that framed the restoration of capitalism in Yugoslavia: liberalisation of international flows of capital and trade, currency convertibility, an independent central bank, and reinforcement or recentralisation of state apparatuses. In fact, in the middle of 1990 the Yugoslav federal administration passed proposals for further constitutional amendments and legislation that would have "restor[ed] much of the power that was divested from federal authorities by the 1974 Constitution" (Dyker 1990, 198): monetary, as well as fiscal policy, the foreign currency system, and other economic relations with foreign markets would henceforth be centralised under the federal state (Prinčič and Borak 2006, 562-63). All these changes were indicative of the fact that the emergence of capitalism in Yugoslavia was part and parcel of the global capitalism project.

Conclusion

To analyse the demise of Yugoslavia through neoliberal primitive accumulation, this section sought to understand how the outbreak of the 1980s debt crisis was taken by the Yugoslav federal government and representatives of the international community, with the IMF and the EEC as their main representatives, as an opportunity to link the restructuring of Yugoslavia to the realisation of the global capitalism project. The debt crisis revealed the unsustainable character of Yugoslav post-war industrialisation, especially of those socio-economic and political arrangements that were introduced by the 1974 Constitution and that were sustained by the increasing inflows of foreign interest-bearing capital. Although domestic changes in favour of economic and political decentralisation, and, on the other side, the developments of international financial markets favouring the recycling of petro-dollars, did indeed pave the way towards neoliberal primitive accumulation, they did not make this process unfold, *per se*.

For this to happen, a neoliberal reshuffle among Yugoslav policy-makers had to take place, led by neo-classical calls by the governmental KG in favour of rational decentralisation. As early as 1983, the Long-Term Programme of Economic Stabilisation signalled the readiness of the Yugoslav leadership to participate in the realisation of a global capitalism project under the WCA. The IMF thus provided the main international linkage between domestic efforts to “westernise” and “marketise” the domestic economy, and international endeavours seeking to accelerate international flows of capital and trade, and make the state financially more responsible and supportive of free flows of goods and capital at the international level.

As the key representative of the international financial community, the IMF helped to empower those domestic forces that promoted, not only the expansion of market forces, but also the centralisation of the state apparatuses. As we have seen, the prime “idyllic method” of neoliberal primitive accumulation, forged by the joint efforts of the federal government and the IMF – these two forces linked to Yugoslav finance – consisted of a combination of structural reforms and economic policy that promoted export-led recovery and the re-centralisation of state powers, particularly those related to debt management and finances, i.e. public finances and the Bank of Yugoslavia. The start of the neoliberal makeover of the European integration project allowed a further push in this “idyllic moment”, since the launch of the single market created new pressures via the external trade channel and allowed representatives of the EEC to further reinforce the bargaining power of those domestic social forces that sought to bring capitalism back to Yugoslavia. Therefore, neoliberal primitive accumulation was as much about the establishment of new, capitalist, property structures and relations as it was about the remodelling of the Yugoslav state and the role of the Yugoslav economy in the international division of labour.

The key “idyllic” moment that enabled the restoration of capitalism was not, however, the separation of the masses from the means of production. Instead, it was the separation of the economic and political rights of producers/workers, bound together in the concept of the social property regime, the prepared structural grounds for the introduction of the capitalist private property regime. This expropriation of Yugoslav producers/property owners/workers provoked trickle-down effects throughout all the Yugoslav socio-economic and political structures. The transformation of enterprises’ self-managers into the classes of capital owners and “classic” wage-earners represented by trade unions went hand in hand with the transformation of enterprises’ banks into profit-oriented financial institutions and the establishment of a formally independent central banking authority, with legislative powers to impose financial discipline. This re-creation of capital-state-labour structures and relations took place at the same time as the abolition of measures that protected Yugoslav producers from international competition.

And there was also the remodelling of state structures with the attempt to centralise macroeconomic powers in the federal institutions. This state project should be seen as another, political, “idyllic moment” of neoliberal primitive accumulation in Yugoslavia. However, its implementation was only partial. The more the systemic reforms progressed, the more the Yugoslav state was torn apart by political antagonisms and conflicts – by 1990 the separatist, yet pro-capitalist, forces prevailed in several regions, including Slovenia. If the remodelling of Yugoslavia under the WCA was successful in class terms, it failed on political grounds. This key puzzle of neoliberal primitive accumulation in Yugoslavia, leading to the emergence of peripheral capitalism in Slovenia, is the main object of the following section.

4.2. Disintegration tendencies, class conflict, and the Slovenian "return to Europe"

It is beyond the scope of this analysis to provide an in-depth account of the disintegration of Yugoslavia, let alone to discuss the armed conflicts that ravaged many of its successor states afterwards. Nevertheless, no analysis of the development of capitalism in Slovenia at the end of the 20th century can be meaningful without examining the factors that fuelled the decision of regional leaders to separate from Yugoslavia just when the federal government launched the economic reforms that they were the most vocal promotors of. To understand why the Slovenian "return to Europe" took place on a formally independent basis, this section examines socio-economic and political dynamics that paced neoliberal primitive accumulation. The remaining discussion explores how the remodelling of Yugoslavia under the WCA fuelled the contradictions, particular to the Yugoslav industrialization under social property regime, led to the explosion of domestic class antagonism and, finally, paved the way towards the establishment of a formally independent Slovenian state, founded on a capitalist private property regime and decided to join the European integration project.

Austerity-based and export-oriented economic policy exacerbated regional inequalities and enhanced the uneven territorialisation of the Yugoslav working-class restructuring and crisis experiences. Since structures and legitimation of class dominance were regionally based, the securing of political control over the restructuring of labour and capital markets, linked to the autonomous status of republics and provinces, became the prime concern of regional leaders. In face of the revolted labour movement, the dominant WCA agenda, combining export-oriented policies with the efforts to centralize state apparatuses, prevented any possibility of a cross-regional political alliance and compromise between ruling elites over the political change and state reorganisation.

The argument proceeds in four steps. The economic impacts of the debt repayment policies on are studied first, followed by the examination of political elites' conflicts. Then, the discussion focuses on the class dynamics of the 1980s reform process. Finally, the formation of separatist and nationalist coalition in Slovenia is studied.

4.2.1. Debt repayment policies and economic disparities

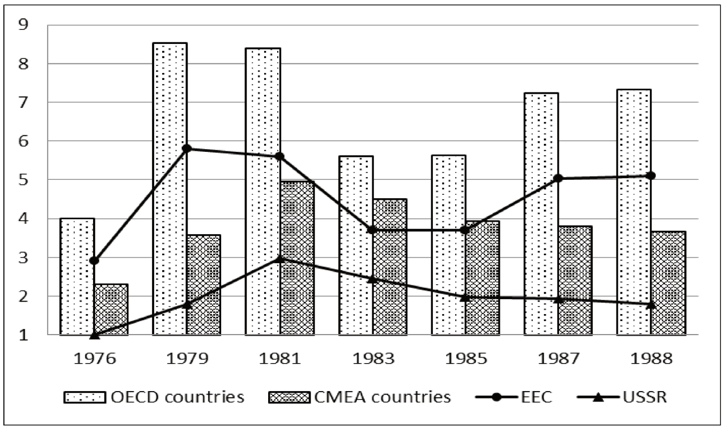
This section focuses on the intensification of economic contradictions during the restructuring of Yugoslavia under the WCA. In the early 1980s, the Planinc administration initiated "the full-fledged return to economic reform and export to Western markets in order to repay convertible-currency debt" (Woodward 1995b, 280). Considering "excessive" local demand and political "interference" as the main causes of the crisis, federal governments combined incentives for manufacture export with harsh austerity measures while allowing the market to increasingly become the main criterion for enterprise viability (Magaš 1993, 94-99, Samary 1994, 60). This section examines how this developmental shift accelerated the uneven development of Yugoslav production structures and their integration on international markets. By downplaying the recovery of domestic demand and economic links with clearing and contractual arrangements, the dominant economic policy mainly exacerbated the crisis and disparities; not only between regions, but between different economic sectors as well. Although Slovenian "western-oriented" exporters gained the most from the shifted developmental policy, a sharp contraction of domestic demand acted as a boomerang that, by the end of the decade, started to undermine the leading Yugoslav economic region as well.

4.2.1.1. *Disintegration of Yugoslav trade from clearing markets*

To study the impacts of the dominant policy on the Yugoslav and Slovenian economies, the changing patterns of Yugoslav international trade are examined first. Figures 11 and 12 provide information on the redistribution of Yugoslav foreign imports and exports by distinguishing between OECD and the CMEA countries. These corresponded broadly to the main Yugoslav trading partners with convertible currency and on clearing markets, respectively.

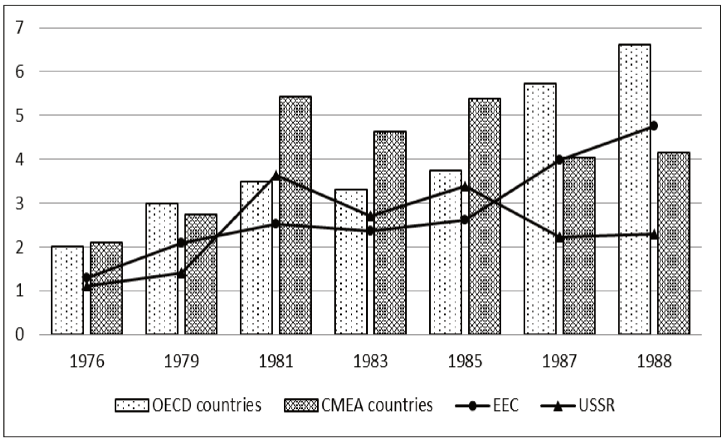
As can be immediately observed, the figures indicate the growing imbalances between the pre-crisis import needs for consumer goods and technological equipment and export capacities to capitalist economies, which fuelled the explosion of the current account crisis in 1979 and consequent debt crisis. More important for the discussion here is to consider the Yugoslav trade regime on a separate basis. Concerning imports (see Figure 11), 1981 represented the first turning point, when both sorts of imports started to decrease. In the following three years, the volume of imports fell by one-third (OECD 1987, 9, 1988, 24) due to harsh austerity measures that mainly hit imports from capitalist countries. After 1985, however, the shares of goods imported from clearing markets continued to decline due to reduced oil expenditures, but also, as discussed below, to the collapse of local investments (OECD 1990, 17, 21). In contrast, the liberalisation of the trade regime in 1987 helped boost imports of less costly consumer goods (OECD 1990, 21-22) and consolidated the dominant position of capitalist economies regarding Yugoslav import needs.

Figure 11 **Imports by area, Yugoslavia, 1976–1988, US$ billion**



Source: OECD (1990, 101).

Figure 12 **Exports by area, Yugoslavia 1976–1988, US$ billion**



Source: OECD (1990, 101).

The central position of the markets with convertible currency was further reinforced by the changing pattern of Yugoslav international exports, as indicated by Figure 12. In the first half of the decade, the value of exports to clearing markets exceeded the sales realised in the capitalist economy. On the one hand, the recession in central European economies decreased demand for Yugoslav goods. On the other hand, higher oil expenditures following the second oil shock further encouraged Yugoslav producers to export to CMEA, at the same time as the Yugoslav foreign exchange rate regime enhanced the dinar value of clearing loans with communist countries due to the nonconvertible currency (Lampe, Prickett, and Adamovic 1990, 99, Prinčič and Borak 2006, 491-92).

After 1985, however, the trade pattern sharply changed. Improved external demand, an export promotion policy to capitalist economies, and the foreign exchange allocation system implemented in 1983–1984 contributed to the fact that, in the second half of the 1980s, exports to clearing markets went down by 6%, whereas CC exports went up by a remarkable 13% annually on average (OECD 1990, 22). The new foreign exchange policy obliged producers to export to capitalist countries to gain the right to import necessary inputs (World Bank 1991b, 9). By the end of the decade, Yugoslav producers sold four out of five exported goods to capitalist economies (OECD 1990, 21).

Therefore, the dominant economic policy, in combination with an improved economic situation in the EEC in the second half of the 1980s and reduced oil prices, accelerated the disintegration of Yugoslav production from the trade and production linkages based on clearing arrangements. After 1987, the leading European economies, particularly Italy and Germany, and to a smaller extent Austria, became the main trading partners of Yugoslavia. However, given regional disparities, this restructuring of the Yugoslav trade regime in favour of capitalist markets did not impact all regions in a similar vein.

4.2.1.2. *Anomalous benefits of Slovenian exporters*

During the post-war industrialisation, the regional structural disparities and division of labour that Yugoslavia inherited from the pre-war period widened despite various redistributive mechanisms. Whereas labour-intensive activities in industry and agriculture, diversified activities, and lower agricultural surpluses and birth rates characterised the production structures of richer northern regions, the poorer southern regions had highly capital-intensive activities in energy, mining, and heavy industry, large rural surpluses, and high birth rates (Woodward 1995b, 286, 293)[17]. Because the Yugoslav economy was structured around

[17] Manufacturing shares in regional economic output amounted to about 87% in Slovenia, followed by Croatia (85%) and Serbia (80%) in 1988; the mining industry predominated in Kosovo and Bosna, representing almost one-half and one-third of the regions' GSP, respectively; Macedonia specialised in textiles, as well as in mining;

territorialised and uneven production and employment structures, the shift in the country's economic policy in favour of austerity and export-oriented production had important sectorial and consequently regional impacts as well.

Whereas there were no restrictions on exports of manufactured goods, the federal authorities charged an export fee to agricultural producers and several times even banned exports of food grains to meet local needs. Although it was internationally competitive, the agro-industry was forbidden to export due to the defence-oriented national food policy that sought to achieve agricultural self-sufficiency and the production of cheap food for the urban population before exports (Bookman 1990, 103-04, Woodward 1995b, 285). Moreover, the aforementioned foreign exchange allocation system further strengthened the pro-manufacture bias of the dominant economic policy. At least until 1988, when a "unique" exchange-rate market was introduced, enterprises producing raw materials and intermediate goods as well as firms supplying internal markets were obliged to purchase foreign currency on local, highly priced exchange markets to be able to purchase the necessary inputs from abroad (Lampe, Prickett, and Adamovic 1990, 95). Therefore, the WCA-shaped debt repayment policies were particularly favourable to northern regions with a relatively well-developed manufacturing infrastructure and qualified labour force, as well as established trade links with the EEC.

> Because the primary earning capacities in foreign trade varied significantly among republics, Slovenia and large areas of Croatia had a significant advantage and Serbia somehow less; demand declined for producers in agriculture, mining and metallurgy, and defence, which tended to concentrate in Bosnia and Hercegovina, Macedonia, and Serbia proper and its two provinces, Kosovo and Vojvodina. (Woodward 1995a, 58)

Indeed, as early as 1989, Slovenian producers realised almost two thirds of their exports on the European convertible markets (Kraft, Cvikl, and Vodopivec 1996, 216). By the end of the decade the Slovenian economy, comprising around 8% of the Yugoslav population and territory, became the main Yugoslav exporter. By the mid-1980s, Serbia proper was generally the main Yugoslav exporter in absolute terms and Slovenian producers exported the biggest Yugoslav share to clearing markets. In 1988, however, Slovenia became Yugoslav leading exporter also on convertible markets (Bertoncelj-Popit 1988) and accounted for more than 26% of all Yugoslav exports and 29% of exports to convertible markets. Similarly, Slovenian producers imported more than a quarter of all Yugoslav imports and 26% of Yugoslav

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and Vojvodina was the centre of Yugoslav agricultural production, representing almost one-third of regional GSP (World Bank 1991a, 6).

imports from convertible markets (Delo 1989b). Inasmuch as the Yugoslav economy increased its export shares during the 1980s, this was mostly driven by Slovenian manufacturing.

For all of these reasons, Woodward (1995b, 359) highlights that during the 1980s economic "adjustment" Slovenia was in a somehow anomalous position of taking advantage of the dominant economic policy, as well as of changing international conditions. In fact, starting with the beginning of the decade, all flagships of Slovenian post-war industry experienced increasing difficulties. The initial losses of these enterprises were not directly related to the outbreak of the crisis, but were caused by "exports to a convertible market at any cost" (Prinčič and Borak 2006, 496). These sales were unprofitable because the producers were obliged to reduce their prices by about 20% to remain competitive. Although the productivity of Slovenian manufacturing was above the Yugoslav average, obsolete technology significantly hampered its international competitiveness – in the middle of the decade, 85% of equipment in major sectors was supposed to be written off. In fact, by the late 1980s, capitalist economies supplied local enterprises not only with technological equipment and know-how, but increasingly also with raw material inputs.[18] Although the same materials were produced in neighbouring regions of Yugoslavia, the global decline in primary commodity prices during the 1980s made foreign raw materials cheaper than domestic products (Bookman 1990, 100). During the 1980s, Slovenian manufacturers indeed strengthened their economic ties with counterparts from capitalist countries, but they reduced their economic exchanges with producers from other Yugoslav regions (Borak 2002, 241).

4.2.1.3. The collapse of domestic markets and the uneven crisis experience

If the Slovenian exporters were obliged to favour exports to CC markets despite losses, it was because import restrictions and reduction of public expenditures collapsed local production to such an extent that it prevented enterprises from replacing their technology with domestically produced equipment (Prinčič and Borak 2006, 495-98). The policy that considered exports to capitalist markets and austerity measures as the main economic solutions of the crisis provoked a total collapse of local production and demand. In fact, as Table 5 below suggests,

[18] Bookman (1990, 100) estimates that in the mid-1980s flows of raw materials among Yugoslav regions were only 1.6% of total trade. Given that around half of Slovenian imports were in the category of primary resources, local producers obtained most of their raw materials on foreign and local markets.

the collapse of domestic demand simultaneously the result and the cause of the prolonged economic and financial hardship (cf. Gowan 1999, 198-200).

Table 5 **Demand and output, annual percentage change at constant prices**

	Change 1980–1985	Change 1986–1989
Private consumption[a]	−1	1
Public consumption[b]	−2	0.5
Fixed investment	−8	−3
Final domestic demand	−3	0

[a] Productive consumption only; i.e., excluding certain services amounting to 3.8 billion dinars in 1988; [b] General and collective consumption according to Yugoslav definitions; i.e., excluding government wages and salaries amounting to less than 10 billion dinars in 1988.
Source: OECD (1990, 17).

As Table 5 indicates, after five years of strong contraction where total consumption, demand, and investment went down on average by 3.5% each year, the negative trend attenuated in the second half of the decade with slightly improved consumption trends and stagnating final demand. However, this "improvement" was mostly driven by the economic rebound in 1986 when, as observed above, the GDP went up for 3.6%. It is noteworthy that these developments were related to changed policy priorities. According to the OECD (1987, 8), "[a]fter four years of stabilisation efforts associated with declining living standards and a significant improvement of the balance of payments in 1983-1984, the 1985 Economic Resolution aimed at a revival of domestic demand and an acceleration of GSP growth". To encourage private and public consumption, the Planinc government eased the wage restrictions among others. Whereas between 1980 and 1985, net real wage in socialised sector went down by 4.5% each year on average, it increased by over 9% in 1986 (OECD 1990, 15). For the reasons explained below (Section 4.2.3.2), the Mikulić government shifted back in favour of austerity when he seized the Prime Minister seat and this despite the fact that the recovery of total domestic demand, going up by 3.4% in 1986, helped to attenuate the crisis.

The debt-repayment policy exacerbated the disproportion between social needs and resources available for investments, and henceforth also exacerbated the already existing differentiation of employment structures among Yugoslav regions (cf. Magaš 1993, 190-92). Slovenia was among the better-off countries. In addition to the region's geo-economic position neighbouring leading EU countries, various state regulations (export subsidies, tax incentives, the foreign exchange system, and permission to import), a smaller share of the military industry and private agriculture, a diversified production structure of multi-product, yet comparatively smaller conglomerates, and relatively developed services (such as banking, transport, insurance, etc.) all contributed to the fact that Slovenian producers were impacted by the crisis much later than the producers in other regions (Bookman 1990, 101, World Bank 1991b, 9). In addition, local producers were fairly evenly integrated into various markets and realised one third of their value in other Yugoslav regions, the other third on the domestic market and the rest in foreign markets (Bookman 1990, Prinčič and Borak 2006, 492-97, Bertoncelj-Popit 1988).

For most of the decade, Slovenian producers mostly faced a slowdown of production and the economy did not start to contract before the end of the decade (Prinčič and Borak 2006, 582). In contrast, when Yugoslavia was hit by a severe energy crisis in the early 1980s the southernmost regions already faced substantial shortages of reproductive material and consumption goods (Pirjevec 1995, 36). In a couple of years, the production in those regions approached a state of complete collapse, and by 1988 Kosovo, Macedonia, and Montenegro already announced their bankruptcy. In the same year, Bosnia found itself in a similar position after the collapse of its main agro-industrial complex, Agrokomerc (Magaš 1993, 191, Prinčič and Borak 2006, 528). By 1988, with the rate of unemployment standing at 2.5%, Slovenian employment conditions were still close to full employment. In contrast, Kosovo's unemployment rate exceeded 57%, whereas in other three financially insolvent regions about one of four workers was without a (public sector) job (Woodward 1995b, 385).

One-size-fits-all "anti-crisis" policy could hardly produce a productive solution to such a differentiation of working class crisis experiences. Whereas poorer regions needed massive public investments to address underutilised machinery, inadequate infrastructure, and escalating unemployment, the industrialised regions followed uneven patterns of international integration: for instance, whereas the Slovenian economy was oriented more to CC markets, the Serbian production was predominantly dependent on CM (Magaš 1993, 82, Prinčič 2002, 42-43, Prinčič and Borak 2006, 495).

Since market was accorded more and more rights to determine the mode of operation and viability of an enterprise, both public finances and foreign currency acquired the status of scarce, yet urgently needed, resources that one should struggle for in order to improve/maintain one's enterprise revenues and, thus, one's income and living standard. Since the regional development mostly depended on the financial resources that a republic captured, the exacerbation of differentiation in production and employment structures could only antagonise the leaderships of republic and provinces over the pace and extent of reform measures and corresponding political changes.

4.2.2. Multi-scalar state structures and political cleavages

Jović (2009, 2) observes that "[w]hile in theory the Socialist societies were anti-elitist, in political reality only the (Party) elite mattered. The main political conflicts in Socialist Yugoslavia were intra-elite conflicts." Therefore, this section explores political cleavages within the Yugoslav leaders over the 1980s reform process, mostly through the lens of the reform agenda defended by members of the League of Communists of Slovenia, especially in the second half of the 1980s. Their contrasting views regarding the state project, promoted by the WCA, are particularly insightful in order to understand how the WCA agenda contributed to the intensification of cleavages between the political leaders and their unification along regional lines, within the republics. As has been mentioned, the IMF – and the federal government – were particularly favourable to the re-centralisation of state apparatuses, especially regarding fiscal and monetary issues. Moreover, any change in the social property regime and self-management, constitutionally founded in a simultaneous recognition of political and economic rights since the mid-1970s, demanded a fundamental transformation in the locus of decision-making. In fact, since the early 1980s, the debate over political change was just as important as the debate over economic change – at the 12th Congress of the LCY, taking place in June 1982, Najdan Pasić, a political scientist from Serbia, proposed that, in parallel to the KC, a commission for political reform should be established as well (Pirjevec 1995, 366-67).

Yet this never took place – the WCA political agenda was incompatible with the existing structures of class power, embodied in a multi-scalar state organisation and a decentralised system of political legitimacy. This manifested itself particularly clearly in the richer republics, where those political actors that were among the most vocal *proponents* of economic, pro-market reform were simultaneously the most vocal *opponents* of any change that would alter the existing redistribution of state powers between the federal bodies and those at the level of the republics. With the launch of systemic reforms, then, the political cleavages among the Yugoslav leaders could only reach their peak.

4.2.2.1. Multi-scalar and "divided" state structures with decentralised political legitimacy

It is worth starting with a brief examination of the Yugoslav political system. The latter was based not only on the principle of duality in governance structures, as already mentioned, but also on the principle of political decentralisation. Since the 1960s, various reforms progressively decentralised the Yugoslav political system in favour of lower levels of administration. After the 1974–76 Constitution, the policies directly affecting labour and employment conditions (education, investment money, regional development, incomes and welfare, and military conscription) were transferred to republics and to two autonomous provinces within Serbia: Vojvodina and Kosovo. Together with the army, which had a voting role in the federal party presidency equivalent to that of the republics (earning it the name of the "ninth republic"), those regions formed the constituent elements of the Yugoslav federal state. External relations (foreign policy, trade policy, and foreign exchange policy), defence policy, and fiscal and monetary policies were decided at the federal level between the delegates of constituent elements. Having equal rights in political and economic decision-making, they could veto any decision within the federal assembly (Woodward 1995a, 290, 1995b, 64, Rant 2004). With the 1974 Constitution, "republics *and* provinces [were] giv[en] state autonomy" (Magaš 1993, 35, emphasis in original) and "recognised as the prime units of economic life, whereas the role of the federation was reduced to a mere redistributive function" (Musić 2011, 317) with respect to internal affairs.

As Samary (1988, 247) points, "there was no federal hierarchy but co-responsibility of state powers". This, multi-scalar and co-divided state system had three important implications for the policy-making dynamics during the 1980s. First, the transfer of powers to the regional level significantly "relieved" the federal state of the responsibility to legitimate the political dominance of the LCY, and the prime locus of party power became regional centres (Jović 2009, 67, Centrih 2014, 16, Stanojević 2003b, 296). The regional authorities thus became a sort of intermediary between the federal state and the population – this was important barrier, further discussed below, to the formation of any major horizontal, interest-based association that would defend the interests of the Yugoslav working class in the face of federal policy and the state. Besides, given the uneven employment (and cultural) patterns and crisis experiences, the methods and instruments of the regional authorities for legitimising their power position diverged substantially.

Second, the republicanisation of the main developmental policies in combination with a strong territorialisation of economic activity brought a new logic to Yugoslav politics; that is, a *de facto* multi-party system (Bilandžić 1980, 404, Dyker 1990, 30) driven by regional leaderships with political agendas echoing local power relations and the interest of "their" production structures and producers. The differentiation of interests and the related conflictual nature of the Yugoslav multipartism were particularly pronounced in the crisis periods (Centrih 2014, 16-17), and especially during the 1980s. The measures implemented impacted the mechanisms of redistribution of accumulation within the federation, public investments in republics and provinces, and control of prices (Borak 2002, 159), which also directly affected the army, otherwise dependent on a federal budget (Samary 1988, 57-59, 75).

After 1985, the Yugoslav multi-party system was additionally strengthened when "[t]he LCY *de facto* ceased to exist […] Joint action was virtually impossible at this time" (Centrih 2014, 34) – as will be further discussed in the next part, this "joint action" should be understood in terms of a whole-party class alliance which became impossible when class conflict, channelled through regionally-based structures, intensified. In fact, although for most of its history the LCY consisted of many "*different*, *mutually competing factions*," (Stanojević 2003b, 292, emphasis in original) irrespective of republic and regional borders during the 1980s, especially in the second half of the decade, the differences within Communists from different regions were growing, while the agendas of non-Communists and Communists within the regions were converging (Jović 2009, 323). The internal fragmentation of regional leaderships along nationalist lines set Yugoslavia apart from many other socialist countries in the region and, as Jović (2009, 323) highlights, was another indicator of the country's disintegration.

Finally, the uneven and scalar division of state functions also impacted the nature of the regulatory process. Although major decisions over policy issues (developmental priorities and legislative changes) were agreed among delegates at the federal level, implementing policies was the responsibility of regional authorities. Consequently, the 1980s reform process further weakened the institutional powers of the federal state in favour of its constitutive units (Jović 2009, 144, Becker 2017, 3). Especially those that were economically better off and less dependent on federal money, such as Slovenia, could reinforce their capacities to act as sovereign bodies at the expense of the federal decisions (Magaš 1993, 190, Woodward 1995b, 342).

For most of the 1980s, the federal bargaining was dependent on consensus among the delegates of the nine "republics" and the representatives of the federal government (Woodward 1995a, 84-85). However, after 1987, the aforementioned economic collapse of four regions (Bosnia, Montenegro, Macedonia, and Kosovo) "shifted the power of decision-making into the hands of Slovenia, Croatia, Serbia and Vojvodina, and finally – after the takeover of Vojvodina by Serbia in 1988 – concentrated it in the hands of the former three" (Magaš 1993, 191). By this time, all three regional leaderships together with the federal government and the Army agreed on pro-market reforms, but their views on the redistribution of the control over economic policy and political change diverged substantially: the federal government, Serbian representatives, and the army called for the re-centralisation of regulatory powers and increasingly favoured authoritarian rule; in contrast, Slovenia and Croatia opted for a multiparty system but defended the existing decentralised system of rights (Magaš 1993, 95, Pirjevec 1995, 354). It is on the agenda of the Slovenian leadership that this analysis now focuses.

4.2.2.2. *Slovenian Communists as trickle-down neoliberals*

Since the beginning of the 1980s, the Slovenian political leadership was concerned with data indicating a fall of productivity of Slovenian firms with respect to international trends (Prinčič and Borak 2006, 495-501). To restore the world market position of the local economy, the 1981–85 agreement on the developmental directives of the Slovenian economy set as priorities the promotion of exports to capitalist markets and the reinforcement of market mechanisms. In a similar vein, in the Long-Term Plan for the Economic Development of the Socialist Republic of Slovenia for 1986–2000, the main actors expressed their willingness to shift Slovenian production away from clearing and Yugoslav markets to convertible markets of the CEE "at any cost" (Repe 2002, 12).

Consequently, the Slovenian political elites were among the leading promoters of the European integration process; as early as 1988, the party leadership formed a new governmental commission called "Europe 92" to work on rapprochement and established ten additional working committees to prepare legislative proposals in line with European directives. According to Bohorič and Kirn (1989), the vice-president of the Slovenian government and the leader of the Europe 92 commission, respectively, "realised that if [Slovenia] does not join the [European integration] processes, there exists a *veritable* and *fatal* danger that Yugoslavia and Slovenia would lag behind the developed and integrated economy of Western Europe. This is based on *objective* evidence of economic and developmental needs of [Slovenian] society" (see also Prinčič 2002, 43, emphasis added).

More precisely, these were mostly the needs and interests of the Slovenian ruling elites, comprising the leading political representatives and directors of the main enterprises (Géraud 2006, 223). In fact, by the late 1970s, the Yugoslav Communists went through a significant metamorphosis (Géraud 2006, 215-16) to become an organisation of administrators, professionals, managers and politicians, whose identity with industrial working class and its interest shrank considerably (Woodward 1995b, 323-25, 333-34). The dominant representatives of the Slovenian enterprises also openly protested political interference in investment decisions, the burden of administrative measures, and the excessive power of workers. In 1986, the Chamber of Commerce and Industry of Slovenia (*Gospodarska zbornica Slovenije*, GZS), the main representative of employers from export-oriented firms, prepared a report on measures to improve the performance of the Slovenian economy. Among other things, they proposed to reinforce the powers and authority of managerial bodies at the expense of workers' councils (Prinčič 2008, 94-96). Thus, there existed an evident confluence of interests between the Slovenian economic and political elites and the WCA economic agenda that privileged the capitalist markets, export-led recovery and the acceleration of the European integration process.

Together with the IMF, the Slovenian political representatives considered the restoration of a private property regime and labour market, as well as the extension of the "discretionary power" of enterprise managers, as necessary for improving Yugoslavia's economic efficiency (Buvač 1988, Šinigoj 1988, Prinčič and Borak 2006, 515-16). In 1986, when assuming the Party leadership, Milan Kučan made it clear that the incentives built into the capitalist system – that is, market dependency – were the most efficient means for raising productivity; in his words, "there is no adequate substitute for what profit and private property represent in the world of capital" (Kučan 1986). Correspondingly, in this vision of political economy, federal state activity and budget expenses only lowered available resources for investments and diminished incentives for rising productivity, whereas aid or subsidies to poorer regions and political influence on monetary authorities and investment decisions were considered the prime causes for the crisis (cf. Pirjevec 1995, 368, Borak 1997, 524-48, Woodward 1995a, 60-61).

According to Prinčič (2002), France Popit, one of the leading Yugoslav Communists, noted at the end of the 1980s that the reform process provoked a conflict between "defenders of socialism as market economy and defenders of socialism as social services" (Prinčič 2002, 36). In other words, the Slovenian elites, together with their counterparts from Serbia and Croatia, "accepted the need for a radical economic liberalisation and with it a bourgeois belief that the invisible hand of the market can solve all the country's economic problems by closing down unsuccessful enterprises and allowing competitive new ones to emerge" (Kovac 1988, 118). Indeed, the withdrawal from participation in the Federal Fund and the reduction of contributions to federal expenditures were at the top of public agenda (Woodward 1995a, 60). For these reasons, Woodward (1995a, 59) argues that, within federal negotiations, the Slovenian authorities held the stance of trickle-down neoliberals. However, although they were the most neoliberal when discussing economic reforms, the Slovenian leaders were among the most conservative ones when discussing the reorganisation of state powers and regulations.

4.2.2.3. Slovenian Communists as defenders of the autonomy of republics

For Woodward (1995a), the reform of the political system divided the camp of the liberal reformers: "Keynesian liberals argued that mechanisms of market integration and effective macroeconomic management were preconditions to economic recovery, and trickle-down liberals opposed redistribution and the role it gave to federal institutions" (Woodward 1995a, 59). Whereas the Keynesian liberals favoured the market and its institutions regulated by Yugoslavia, "the trickle-down neoliberals were antifederalists" (Woodward 1995a, 59) and sought to protect the existing constitutional rights of the republics over economic policy.

Because the legitimacy of regional leadership was tied to the performance of the local economy, maintaining regulatory authority over economic policy was of crucial importance from the point of view of regional leaderships. In the discussion over the political transformation of the Yugoslav system, the Slovenian leadership were the strongest defenders of the 1974–76 Constitution. "Insist[ing] on exclusive priority to what they defined as the national interests (and therefore national rights) of their republic," (Woodward 1995b, 359) they strongly defended the constitutional rights of enterprises and republics over economic assets and their redistribution and strongly opposed any change over consensual decision-making at a federal level that could undermine their bargaining power (Repe 2002, 162-63). Indeed, although the Slovenian Party leadership allowed for substantial liberalisation of political activities during the 1980s within "their" territory, they rather opposed to initiatives of political pluralisation at the federal level – the federal authorities could reduce the control of the regional authorities over political representation and federal decision-making (Kovac 1988, Woodward 1995a, 85, 98).

For Repe (2002), the Slovenian party leadership under Kučan was "uncompromising to the approach of Belgrade" (Repe 2002, 30) and saw the federal state interventions and administrative regulations as "vehement primitivism" (Repe 2002, 30) that undermined the autonomy of the republics and their constitutional rights to decide over local development. In particular, whereas the federal state was judged as being excessively interventionist regarding, for example, welfare redistribution within the fund for undeveloped regions, it was simultaneously criticised for being insufficiently "interventionist" regarding the changing political and economic situation in Europe (see for instance Delo 1989a).

After 1987, when the Party presidency approved public discussion on the revision of the Federal Constitution and political reform (Jović 2009, 308), the proponents of the political status quo from Slovenia started to promote an asymmetric federation and, later, a confederation. This would further strengthen the economic autonomy of republics, whereas federal/confederal policy-making would be based on consensus. It is not a coincidence, as Woodward (1995b, 357) remarks, that the Slovenian political leaders radicalised their strategy just in a period when the domestic economy started to benefit less than before from Yugoslav state policies, whereas the economic and political developments in the EEC suggested new economic opportunities in areas of foreign investment, trade, and eventually full membership in the European integration project, and this independently of the federal administration.

Indeed, the question of the change in the form of integration of the Yugoslav economy on world markets polarised strongly the two key political players at the end of the 1980s. The Serbian and Slovenian leaders pursued diverging strategies of international re-integration: "The Slovenian economy was oriented toward the convertible markets and wanted to increase its shares on it. The Serbian economy was oriented toward eastern, clearing markets […] implying that it would be seriously hit by the depression of clearing dollar and other measures that would favour exports to Western economies" (Prinčič 2002, 42-43, see also Kraft, Cvikl, and Vodopivec 1996, 219).

However, notwithstanding the importance of changing international conditions and the opportunities offered by the European integration project, the foundation and legitimacy of the Yugoslav Communists – and their changing class-developmental strategies – lay not in the international community but within the local working classes. Therefore, it is to the intensification of domestic class conflict and role of Yugoslav labour during the 1980s crises that this analysis now turns.

4.2.3. Class dynamics of the reform process and the abolition of social property regime

Contesting the thesis that labour was a weak actor within the socialist system, Stanojević (2003b, 293) highlights that self-management endowed Yugoslav workers with significant powers and for this reason, this part studies Yugoslav class power structures and the role of labour movement in the reorganisation of the Yugoslav state under the WCA. The class dynamics of the reform processes exacerbated the antagonist tension between the strength of Yugoslav labour and the powers of the Yugoslav state and the system it represented – the abolition of the social property regime was mostly a consequence of a strong the labour movement that hampered the implementation of reform programmes. At the same time, because intensifying tensions were channelled through regional power structures, the more that Yugoslav labour gained in pace and scope, the more it pushed regional authorities to further entrench themselves into republic-level constituencies and to fragmentise the Yugoslav working classes along regional lines.

4.2.3.1. *Class-power structures of the industrialisation under the Yugoslav self-management*

To understand the dynamics of the labour movement during the 1980s, a word on the structuring of social power and political legitimacy within the Yugoslav system is in order. In socialist system in which the political sphere dominated over economic and social life, there were two mechanisms or forms of political exchange between the dominant elites and subordinated working class (Stanojević 1994, 166). On the one hand, the social contract overtook the role of the electoral mechanism between the government and population, proper to liberal democracy in capitalist societies. In exchange for their "passive" support of the political elites, workers or citizens were sheltered from being dependent on the market for their means of subsistence and given the opportunity to improve their social status, as well as participation in the redistribution of the wealth produced (Stanojević 1994, 166, Hafner-Fink 1997, 255).

On the other hand, self-management and economic decentralisation created conditions that allowed labour to directly shape structures of political authority at the micro-level (Stanojević 1994, 166-67). Although economic decentralisation accorded substantial autonomy to enterprises, encouraging the formation of a "quasi-corporatist or micro-corporatist insider coalition of workers and managers aim[ing] mostly at market survival" (Grdešić 2008, 135-36, cf. Županov 1987, 269), open industrial conflicts occurred very often. Workers organised short-term wildcat work stoppages to contest management's practices and demand better wages and working conditions (Županov 1987, 266-67, Jovanov 1989, 28-35). During strikes, "workers would enter into 'direct communication' with the political elite to remind it of its obligations [...] The reaction of the political elite was generally swift and effective: it consisted in meeting workers' pay demands and in replacing the director" (Stanojević 1994, 167, cf. Županov 1987, 268-69, Samary 1988, 215-16).

Strikes thus revealed the structures of power relations, invisible during "peaceful times" and formed around a "grand coalition" between political leaders and the working class (Županov 1987, 140-41). The management, a potential competitor of political actors, was pushed into a politically subordinated position, whereas the political elites consolidated their dominant position by giving in to workers' demands (Stanojević 1994, 169). As Grdešić (2008) highlights, the actual implementation of participatory institutions at the enterprise level was less important than its political implications, where political elites became dependent on workers. Yugoslav "labour was empowered in its dealings with the political elite in a way that did not occur elsewhere in East Europe" (Grdešić 2008, 134, cf. Jovanov 1989, 44), nor in the corporatist framework of leading capitalist economies (Županov 1987, 266). Moreover, given the multi-scalar and divided state structures and regionally based centres of power, the Yugoslav "grand coalition" was institutionally fragmented around regionally anchored structures of social powers, where precise instruments for the political legitimacy of Communist dominance depended on local production and employment structures, cultural patterns, historical "legacies," and so on.

However, as highlighted in the previous section, during the 1980s the Yugoslav leaders decided to depart from their post-war class compromise with workers and "[f]or the first-time, market oriented reform offered no compensation for workers" (Grdešić 2008, 138). By disconnecting liberalisation from building self-management, the leadership clearly renounced its post-war commitments to protect workers from market forces and price competition and to increase their participation in the economic process. Although it is difficult to say which factor contributed most to the feeling of social insecurity and anger – austerity, rampant inflation, falling real incomes, consumer goods shortages, unemployment (or the threat of unemployment), undemocratic political decision-making, and increasingly authoritarian rule of the Yugoslav state – the fact is that the changing class strategy of the LCY, now using self-management to facilitate a market-led disciplinarisation of labour, provoked powerful resistance among the Yugoslav working class, often overcoming sectorial and ethnic differences (Magaš 1993, 107, Samary 1994, 67-88, Lowinger 2009, 68, Musić 2011).

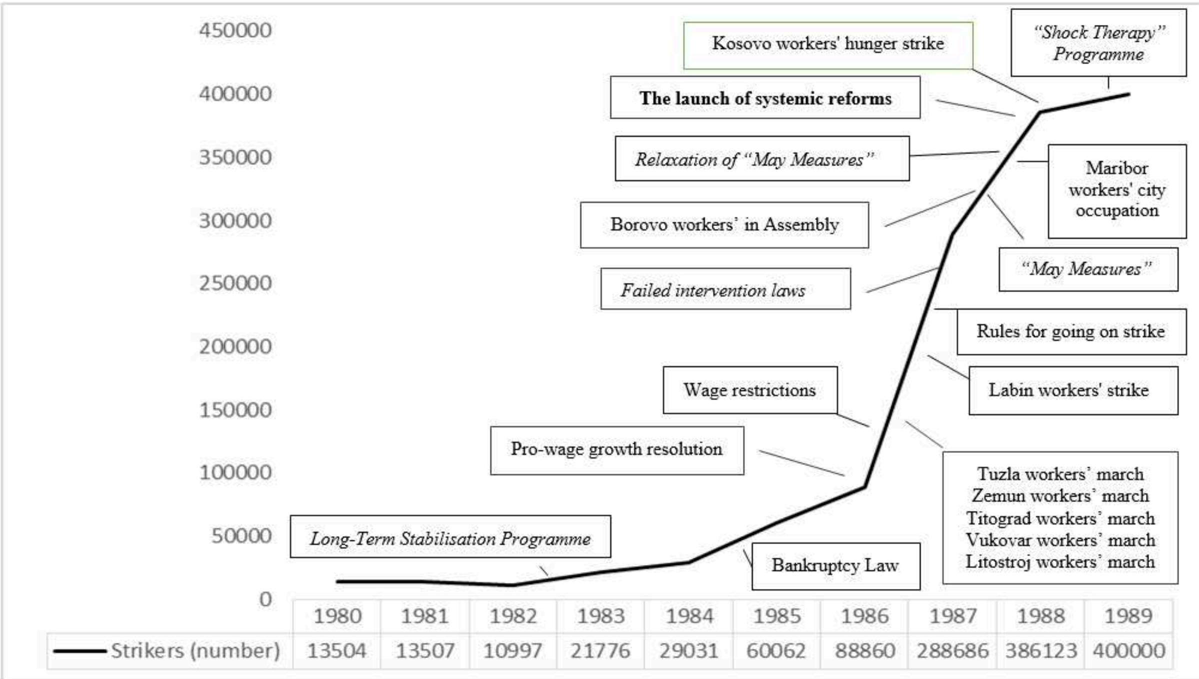
4.2.3.2. Failed stabilisation policies under the labour counter-movement (1985–1987)

According to Musić (2011, 197), Yugoslavia had the highest strike activity among European countries during the 1980s. As Figure 13 indicates, the number of striking workers rose constantly since the launch of the 1983 Long-Term Stabilisation Programme. The strike wave was formed in three steps: after rising only slowly after the outbreak of the crisis, it gained in pace and scope in the middle of the decade before exploding: between 1987 and 1989, the magnitude of the labour movement was unlike any other that the Communist leaders had faced before (Lowinger 2009, 65).

The first turning point in 1985: after five years of stabilisation programmes that reduced net real wages by 4.5% each year on average (OECD 1990, 15) and in a period when officially almost one million workers were unemployed the Yugoslav leaders decided to implement stricter market criteria for loss-making enterprises. The new legislation provoked the first bankruptcies (OECD 1987, 8) without being accompanied by any programme for dealing with related social hardship (Magaš 1993, 190). The number of strikers doubled and the increased pressures probably played an important role in the federal government's call for the revival of domestic demand in the 1985 Economic Resolution, already mentioned above. It seems that by easing wage restrictions in 1986 (OECD 1987, 8), the Planinc administration successfully halted the expansion of labour unrest, with the number of striking workers increasing by less than one-third between 1985 and 1986.

Although this policy turn fuelled the economic rebound, as seen in the previous section, when Branko Mikulić became prime minister the unfolding of the inflation spiral was taken as an excuse to cut some of the acquired social gains (cf. Pirjevec 1995, 384). In early 1987, the new government proposed reducing the wage increase announced some months before, adjusting wages to productivity and closing loss-making enterprises (Pirjevec 1995, 384, OECD 1988, 19).

Figure 13 **The strike wave and reform process, Yugoslavia, the 1980s**



Note: For 1989 only the number of strikers until June 1989 is given.
Sources: 1980–1988 (Jovanov 1989, 38-40), 1989 (Warner 1990, 215).

These measures, together with the formal launching of the discussion over the change of political system, provoked a second turning point in the labour movement. Workers from bankrupted regions departed from their factories to occupy cities: in June 1987, 327 miners from Tuzla in Bosnia walked 145 km to Belgrade and the action was in the same month repeated by workers from Serbian Zemun that sent 4000 workers on the march to the capital city (Lowinger 2009, 68); later in November, construction machinery workers and steelworkers in Titograd, Montenegro staged the largest post-war demonstration in the region (Magaš 1993, 170).

Workers from more industrialised regions on the North reacted resolutely as well. In May 1987, miners from Labin in northwest Croatia held the longest strike in Yugoslavia's post-war history, lasting over a month: "the system was challenged at all levels […] Always presented as expressing the socialist essence of the Yugoslav state, in the light of this strike self-management was shown to be its opposite: an instrument for exploiting the workers" (Magaš 1993, 105, cf. Kuzmanič 1994, 162). Crucially, the demands of the Labin workers went beyond the usual economic demands to articulate "the political goal of creating mechanisms for regulating conflict directly between workers and the state" (Woodward 1995a, 86). In July, workers from *Borovo* and *Vartileks* "united in an odyssey around Yugoslavia, beginning by striking in front of their local party headquarters in Vukovar, Croatia and then travelling to Zagreb and eventually Belgrade. This was seen in the media as the first opportunity for a strike to morph into a larger solidarity demonstration against the direction of government policy" (Lowinger 2009: 68).

Moreover, at the end of 1987, around five thousand workers from Ljubljana departed from their factory, Litostroj, the major metal enterprise located on the outskirts of the capital city, to the centre of Ljubljana to protest in front of the parliament. The protestors then continued by holding a meeting at the Cankar Centre, the central building of the Slovenian cultural elite, dissolved the official enterprise trade union, and established the first independent trade union in the post-war history of Yugoslavia (Jakopec 1987, Repe 2002, 416). The Litostroj workers' action was all the more significant because "Litostroj was also called 'Tito's establishments' (Titovi zavodi)" (Lukšič 1997a, 109). In January 1988, the official trade union body in Slovenia declared in its "Rules for Going on Strike" that "the trade union is entitled and obliged to organise and lead a strike if it establishes that its workers were unable through regular self-management ways to have their demands fulfilled" (Warner 1990, 215).

Thus, throughout 1987 the striking workers changed their strategy from defensive to an offensive one. During their marches, street demonstrations, and gatherings in front of regional or federal government buildings, they now called for the resignation or replacement of their regional authorities, questioned the political monopoly of the LCY, demanded multiparty elections, as well as the inclusion of labour representatives in the decision-making bodies at the federal level (Jovanov 1989, 41-13, Samary 1988, 272, Magaš 1993, 152, Musić 2011, 197). With the neoliberalisation of the Yugoslav leaders' policy agenda, it became increasingly clear that the multifarious institutions built during the decades of self-management prevented workers from forming horizontal associations and lacked any channel that would directly link workers' grievances with federal state institutions and policy-making – the primary purpose of the workers' council was to perform a managerial function in the operation of firms (Woodward 1995b, 166-67) and the Chamber of Associated Labour, the prime labour organisation at the federal level composed of regional delegates, was not integrated in the Federal Assembly, the highest legislative body in the country (Musić 2011, 194).

However, the "embeddedness" of the 1980s reform process within regionally based "grand coalition" power structures granted workers significant powers to hamper the implementation of market reforms. A consensus over stabilisation measures, reached among regional delegates at the federal level, regularly turned into a mere paper unity immediately when regional authorities faced striking workers "at home" and were pushed to circumvent federal decisions or to implement them only partially (Pirjevec 1995, 369, Woodward 1995a, 62, Lowinger 2009, 73, Becker 2017, 4). Thus, in 1987, the implementation of an anti-inflationary demand restricting intervention laws, adopted on the basis of the "social compacts" system, failed (Woodward 1995a, 158, OECD 1988, 18-21). This failure represented another turning point in the restructuring of the Yugoslav state because it paved the way not only to the implementation of stricter stabilisation programme but also to the abolition of the social property regime as such.

4.2.3.3. Property regime change and the regionalisation of labour movement (1988–1989)

Mikulić's anti-inflationary "May Measures," adopted in mid-1988, can be seen as the first attempt to break down labour militancy by departing from the system of "social contracts" and consensual decision-making. For the first time, nominal anchors to fight inflation were set down by restricting wages, public expenditures, and the money supply. This pushed companies to slow down production and further reduce wages (Tagliabue 1988). The labour "counter-movement" intensified again. When they saw their wages being frozen again, two thousand rubber workers from the Borovo factory in Croatia went to Belgrade and demanded a meeting with federal representatives. "After being left waiting for five or six hours in scorching heat to 'soften up' prior to the encounter, their patience finally ran out and they pushed past guards to invade the Assembly rooms – an act unprecedented in post-war Europe" (Magaš 1993, 152, cf. Lowinger 2009, 90-92). Imitating their counterparts from

Sarajevo that during the tram drivers' strike paralyzed the city in February 1988, workers from the Slovenian industrial giant TAM, which barely managed the crisis (Vodušek 1989), held the most impressive strike in the post-war history of the Slovenian region.

> [I]n a few extremely hot summer days in 1988, [a] wild strike in Maribor, the north-eastern industrial centre of Slovenia, put the whole town under the command of a few thousand workers for more than a day. The railway station was blocked. Perhaps at this point Slovenia, as a republic of the former Yugoslavia, was closer to a state of emergency than at any other time in the previous ten years. (Kuzmanič 1994, 164)

In October of that year, miners from Kosovo, after completing their night shift, joined their day shift counterparts heading toward the capital of the province seventy kilometres away to hold "the largest Albanian demonstrations since the war: half a million participants over the next five days" (Magaš 1993, 208) flooded the city of Priština.

The militancy of the labour movement now gained international attention, with a journalist from The New York Times stating that "wildcat strikes swept the nation. Though the country has seemed to reel from one economic crisis to another, this is the most acute period of labour unrest in most Yugoslavs' memories. And many believe no end is in sight" (Tagliabue 1988). Indeed, no end was in sight, and "the main theme in media reporting in 1988 was the fear that the momentum of labour unrests would spiral into a larger social movement that would derail the reforms for good" (Lowinger 2009, 67–68). According to Magaš (1993), Mladen Žuvela, a member of the Croatian party leadership, now warned that the country was "entering the period of an organised class struggle. The working class is beginning to build up its own cadre, which does not belong to the bureaucracy, speaks the workers' language and learns quickly from the experience of other workers" (Magaš 1993, 212).

Labour pressures forced the government to relax the "May" norms, and the anti-inflationary programme failed again (Pirjevec 1995, 379, Repe 2002, 417, Prinčič and Borak 2006, 544). Declaring "its inability to deal with the country's economic problems with the policy measures available within the existing system [the Mikulić government] established a commission to launch new systemic reform" (Mencinger 2004, 69), adopted in October 1988. In the following month, regional authorities confirmed amendments to the federal constitution that created legal conditions for abolishing the social property regime and self-management (Mencinger 2004, 69). Nevertheless, having failed to stabilise the economic situation, Branko

Mikulić resigned in late 1988 and the prime minister's seat was assumed by Ante Marković. The government change coincided with trail-blazing action of workers in Kosovo.

As part of a general industrial strike in this autonomous province in Serbia, about 1,300 miners from Trepča went on a hunger strike in their pit, nine levels underground, where the temperature was about 50 °C (Magaš 1993, 179). It was no coincidence that the most radical revolt against the 1980s reform measures was held by miners and that it took place in Kosovo. This region and this industrial sector were the hardest hit by the neoliberal developmental shift of Yugoslav leadership. Among other things, the Kosovo workers demanded the resignation of three provincial leaders that were imposed by Serbian leadership acting against the minority rights accorded by the 1974–1976 Constitution. When the protests in the province intensified, the federal leadership agreed to impose a state of emergency on the region (Magaš 1993, 221, Pirjevec 1995, 391, Géraud 2006, 226).

In fact, the developments around the Kosovo miners' revolt were indicative of how throughout the 1980s regional authorities "aimed at centralisation within themselves while decentralizing Yugoslavia as a federal state" (Jović 2009, 144), that, in turn, hampered the formation of horizontal movement, based on class or interest issues, independent from regional borders (cf. Woodward 1995a, 85).[19] Throughout 1989, the regional authorities changed constitutions not only to allow for the establishment of a private property regime but also to legally redistribute political power among the republics in line with the principles of asymmetrical federation (Prinčič and Borak 2006, 599, see also below).

In parallel with the modification of republic-level constitutions, the preparation for a new 'shock therapy' stabilisation programme began under the government of Ante Marković (Mencinger 2004, 70). When the programme was announced in December 1989, trade unions called for a general, Yugoslav, strike to protest against the planned wage freeze and another dinar devaluation (Warner 1990, 215). Although for most of the decade the "official" trade unions were "not on the side of workers but on the side of directors" (Lukšič 1997a, 108), after 1988 striking workers were increasingly led by official trade unions as well (Warner 1990, 215).

[19] When the reforms abolishing the social property regime were launched, all republic-level delegates within the federal Party reached a tacit agreement on the illegal reunification of Serbia that gave a green light to Slobodan Milošević to consolidate Serbian republic-level state apparatuses (Magaš 1993, 221, 225, Géraud 2006, 226).

However, the proposed general strike never took place, without doubt facilitating the implementation of the Marković programme, whose consequences on the Slovenian economy are for analytical reasons further discussed in the next chapter (see Section 5.1.1). It is beyond the scope of this analysis to explain why the labour movement failed to create an alternative to the LCY agenda. In view of the following discussion it is, however, worth highlighting two factors that turned labour's strength into weakness (at the federal level). The uneven crisis experience polarised the socio-economic conditions of the Yugoslav working class, their demands, and forms of mobilisation. "The level of territorial decentralisation […] meant that one's economic and social prospects depended on the economic base of one's locality and republic […] The social organisation of employment […] defined individuals' economic, social and political positions, rights, and prospects" (Woodward 2003, 76). Whereas poorer communities increasingly resorted to the norms of reciprocity and mutuality based on ethnicity, "traditional" strikes were more common in the northern region, with its developed industrial infrastructure (Lowinger 2009, 50). Moreover, many trade union leaders adopted nationalist discourse to support the secessionist agenda of regional leaderships (Lowinger 2009, 100-125, Centrih 2014, 7).

At the same time, as shown, the class dynamics of the 1980s reform process reinforced "the ever-present tendency of the republican and provincial parties to entrench themselves in local national constituencies" (Magaš 1993, 191), and to internally fragmentise Yugoslavia, where "each republic and province increasingly became an economic and political world unto itself" (Centrih 2014, 16). It is, therefore, the "Slovenian world" that this analysis discusses in the following part.

4.2.4. Engineering political consensus on a national basis

Several years of WCA-inspired policies that disproportionately placed the greatest burden of the crisis on (lower class and lower middle class) workers and on poorer regions acted as "surgery [that enabled] an artificially engineered modification of the social and political structure of the indigenous population" (Ivanova 2007, 361). Although the Yugoslav "divided" state system and regionally-based centres of power proved to be a fruitful institutional channel for transferring class anger into the national one everywhere, the large economic disparities and diverging regional traditions contributed to the fact that the final outcome of this socio-political "engineering" varied substantially among the regions (cf. Magaš 1993, 191). This section focuses on the political dynamics of Slovenia at the end of the 1980s and discusses the construction of political consensus in favour of separation. Political developments and social struggles are taken into consideration, whereas the intensification of the economic crisis at the turn of 1990 is studied in the next chapter.

The Slovenian political dynamics in the late 1980s should be seen in the light of the exceptional position of the local social formation within the Yugoslav system of institutional and development hierarchy. This created an explosive mix of comparatively stronger organised labour demanding protection from market forces, of the politically and socially influential middle class demanding protection of the "Slovenian" system of redistribution against the federal one, and of political authorities that had the most capacities, regulatory and economic, to accommodate these pressures. Although their "protection" was selective and never questioned the expansion of market forces, it nonetheless reinforced the "Slovenian grand coalition" pattern and helped turn those popular masses that gained the most from the Yugoslav post-war system into its most vocal opponents.

4.2.4.1. Federal trickle-down neoliberals as selective regional protectionists

The authoritarian reaction of the Yugoslav leaders with respect to the 1989 Kosovo hunger strike, mentioned above, suggests that all Yugoslav workers did not enjoy similar structural and political power. In fact, it seems their power depended on the depth of the crisis on a regional level and the level of development of productive forces. Analysing divergent trajectories of the Yugoslav regions at the end of the 1980s, Woodward (1995b) highlights the exceptional powers of Slovenian labour based on the most industrialised production infrastructure and the most developed institutions of self-management. Indeed, according to the public survey realised at the end of the 1980s, the Slovenian trade unions enjoyed the highest shares of membership in Yugoslavia that were much higher than in other industrialised regions (Broder 2016, 34). The fact that the crisis was much less severe than elsewhere, as well as that as late as 1989 the unemployment rate remained below 3.5%, proved to be additional factors in helping local labour preserve its "real bargaining power over incomes, benefits, and jobs" (Woodward 1995b, 341).

Consequently, those that defended the position of trickle-down neoliberals at the federal level acted more like protectionist once they intervened at the regional level. Like their counterparts in other Yugoslav regions, the Slovenian authorities circumvented or ignored federal decisions regularly throughout the decade. For instance, they implemented various restrictions on immigrant, low-skilled labour to protect the "core" labour force and often circumvented maximums placed on wages by the federal government (Woodward 1995b, 294-95, 355-56, cf. Jović 2009, 146). Although they called for the reduction of federal state expenditure, the Slovenian authorities pursued various programmes to strengthen the integration of local productive infrastructure – especially of those segments that already established links with "Western markets" – into the production network dominated by the leading European states: the promotion of regional economic cooperation within the Alps-Adriatic group and the creation of a specific fund for subsidising new investments and foreign capital inflows were among the most important ones (Repe 2002, 139). Therefore, in as much as the domestic leadership tried to capture malcontent workers by shifting in favour of protectionist stance, the latter nevertheless privileged some social class over the other, one form of economic internationalisation over the other and one development strategy over the others.

In fact, in Slovenia too, the direct conflict with workers intensified after 1987 (Crowley and Stanojević 2011, 277), when the regional authorities decided to close down the loss-making mines and send local workers into unemployment – for the first time during post-war development (Popit 1988) – just when rampant inflation sent real wages downward. According to Aleš Čerin (1999), a member of the Slovenian government under the leadership of Dušan Šinigoj, rising labour dissatisfaction was at the top of the local leaders' agenda throughout that year and was the main reason for an urgent meeting held by the government in December 1987 (Čerin 1999, 205, 213-17, see also Hojnik 1988). Moreover, many workers from successful enterprises now joined the wave of strikes. "These were not mere protests by workers. Among the participants was an increasing number of qualified workers and those with middle and higher education" (Prinčič and Borak 2006, 293).

Better-educated workers were the leading actors in pushing the regional authorities toward the system of collective bargaining and the transformation of trade unions into an organisation furthering the concrete interests of workers from one factory or another (Lukšič 1997a). Magaš (1993) commented that in the context of an increasing "empowering" of the market mechanism, "the question [was] posed as to whether the workers too should not be free to determine the price of their labour-power on the marketplace […] using all the traditional means of working-class struggle" (Magaš 1993, 106). In fact, in Slovenia, neither workers nor trade unions opposed dismantling the self-management structures. For workers, self-management was discredited together with the entire political bargain with the ruling elites. Trade unions hoped that the restoration of the labour market would finally enable workers to have greater influence over their working conditions, in particular wages (Stanojević 1994, 168). Therefore, although striking workers posed a severe threat to the privileges and status of the dominant elites, for these elites, "[t]he strikes were […] a potential asset turning workers against the federal government and transforming some into potential fodder for nascent secessionist movements" (Lowinger 2009, 58, cf. Močnik 2006, 72).

4.2.4.2. Constructive opposition of civil society movements

In the second half of the 1980s, Slovenian territory was not only a place of a nascent labour movement, but also a space characterised by a bourgeoning "independent public sphere," mainly composed of young people and younger intellectuals from the middle class (Mastnak 1993, 97). After failed attempts to repress contesting voices, the Slovenian political leadership accorded to these movements the rights to express themselves (Kovac 1988, 120, Géraud 2006, 225, Jović 2009, 324). Very soon, the "opposition" or "alternative" movements – as their protagonists named themselves – became very popular and had a considerable political influence on local discussions (Kovac 1988, 122, Kuzmanič 1994, 161).[20] The movements were structured around two pillars (Géraud 2006, 225-26).

Those that emerged outside of formal Party or state structures were organised around the Alliance of Socialist Youth of Slovenia (ASYS), the Party's youth organisation. *Mladina* [Youth], the weekly magazine of the ASYS, soon occupied a leading role in the formation of local public opinion (Magaš 1993, 132, Pirjevec 1995, 388), and, among other things, opened the discussion on the role of the military and the democratisation of the political system. Many ASYS members also participated in and encouraged the activities of the emerging independent trade unions (Kuzmanič 1994, 165). On the other hand, the intellectuals around the Slovenian Writers' Association (SWA) and the journal *Nova Revija* [New Review] were leading voices of nationalist discourse (Jalušič 1994, 148, Jović 2009, 19-20). Organising a high-profile public meeting in early 1985, the SWA launched a public discussion on the

[20] In 1986, 75% of participants in a public opinion poll supported their activities, and almost half of them were ready to join those movements (Repe 2002, 101).

“Slovenian national question” that culminated in early 1987 with the publication of the 57th issue of *Nova Revija*. The common theme of various contributions was that without full political independence and liberal democracy the Slovenian nation would disappear under the Communist ideology of Yugoslavia and its “unitarist” tendencies (Repe 2002, 103-05).

During the 1980s, and in particular in the second half of the decade, the civil society movements became the prime institutional channels of growing rebellion against the federal state. With the imposition of austerity measures, “[d]eclining prospects, lower relative incomes, and increased competition for employment commensurate with educational achievement and status expectation all led to open and growing resentment within the established managerial, professional, and urban white-collar stratum against the system’s policies of redistribution” (Woodward 1995b, 368).

Because social status depended on the republics’ rights to control production and employment, as well as education and cultural issues, this revolt was particularly strong in Slovenia. It was the only Yugoslav region with an onion-shaped social hierarchy structure, with more than half of the population belonging to middle class (Hafner-Fink 1997, 260). This meant that the local population was among the worst off in the case of the political re-centralisation of Yugoslavia. The protests against austerity measures and the threat of losing control over employment increasingly took the form of a defence of republic-level autonomy over economic resources and policies (Woodward 1995a, 54). Whereas the SWA linked the anti-Yugoslav state agenda to right-wing nationalist ideas in defiance of the allegedly oriental and backward character of other Yugoslavs (Močnik 1995, 81-85), the ASYM “despite its radical leftist agenda […] did not attempt to mobilise the workers against the party, even though it was the only organisation potentially capable of starting such a project. Instead, it played a role of constructive opposition” (Centrih 2014, 33, see also Magaš 1993, 166, 147-51, Kuzmanič 1994, 161, Močnik 1995, 108).

Faced with pressures from civil society movements, the Communist party, otherwise contesting any political change within the federal system, allowed self-regulation of certain social strata and started to advocate political pluralism at the local level. Progressive political liberalisation in Slovenia in the second half of the decade – contrasting with experiences from many other Yugoslav regions – was related to the Slovenian leaders’ “desire to retain all real power” (Kovac 1988, 120) and to forge new political alliances on a nationalist basis. As stated by Becker (2017, 4), it was not only that “[t]he leading forces in the republics – party leadership, technocracy, and directors of state enterprises – shared an interest in securing territorial control of 'property rights' and, thus, leverage over the privatisation process"; they also "managed to get many workers onto their side with promises of 'national' protection" (cf. Samary 1994, 60-62).

4.2.4.3. Reconstruction of republican interests as national interests

The channelling of conflicts over the reform process through regional power structures provoked a powerful political effect. Lowinger (2009, 58-59) finds out that the conflictual character of the reform process during the 1980s strengthened the regional "grand coalition" structures; this was particularly pronounced in those republics in which the local authorities were less dependent on federal state expenditures and had the capacity to give in to popular demands, as well as to secure employment status or reduce social degradation. The understanding of the local authorities as "protectors" was further reinforced by the fact that these authorities were indeed the only representatives of the local population at the federal level due to the absence of a vertical, inner-party level.

In Slovenia, this "empowerment" of regional authorities was mostly used to redirect mobilisation capacities of the local population against the federal state on nationalist grounds. The reconstruction of the exploited-exploiter dichotomy in nationalist terms, led by dominant political actors and various intellectuals aspiring for a power position in the emerging system, including some leaders of trade unions (cf. Tomšič 2010, 321), was the most intense between 1987 and 1990. The intensification of class conflict at home, as well as issues over the control of political instruments of social power and property change pushed the liberal leaders of the wealthiest republic into a direct confrontation with federal liberalism (cf. Samary 1994, 62).

The first major event took place in mid-1988, during the court process against the *Mladina* journalists, charged with allegedly leaking secret military documents. The illegal decision of the Army to hold a trial in Serbian in a court in Slovenia provoked a wave of public demonstrations that were soon coordinated by the Committee for the Defence of Human Rights (CDHR). All of the alternative movements joined the CDHR, which very quickly became the most powerful political force, having the support of all Party organisations (Pirjevec 1995, 390). Whereas an earlier offer by metalworkers to take the trial as an occasion for organising a general strike "was politely and firmly declined" (Magaš 1993, 145), in June 1988 the CDHR held a popular gathering that "in its scope and importance, [was] without precedent in post-war Yugoslavia" (Magaš 1993, 143). Joined by about 30.000 people (Pirjevec 1995, 390), the protest resembled a "virtually complete national mobilisation" (Magaš 1993, 145).

Indeed, "[t]he trial of the four allowed all questions on the public agenda before 1989 to be subsumed under the national question. All questions that did not fit well enough into this scheme became unimportant" (Jalušič 1994, 148). Various movements within the "opposition" homogenised their respective political agendas on a nationalist basis (Mastnak 1993, 57), similarly as the local factions of the LCY had done (Pirjevec 1995, 390). The Slovenian Communists under the leadership of Milan Kučan now promoted "socialism on a human scale" where "economic efficiency" would go hand in hand with political pluralism (Popit 1988) and the European integration project. Titled "for the European quality of life," their new political programme "was tailor-made for managers, entrepreneurs, intelligentsia, technocrats and especially middle and upper classes" (Ferfila 1989).

Significantly, Jović (2009, 328) emphasises that "[b]y defending Slovenia and opening up to the opposition, Kučan reversed the negative trends for the Party in public opinion". During the 1980s, the actual membership of the Communist Party at the Yugoslav level sharply decreased under the looming crisis of legitimacy of the established system, with one of the greatest decreases in Slovenia. In April 1988 less than 30% of the population supported the Party leader, whereas this share rose to over 65% in October 1988. Consequently, "[t]o a degree similar to Milošević, Kučan now styled himself as 'opposition' and 'government' at the same time" (Jović 2009, 328, cf. Magaš 1993, 189).

The Slovenian Party leader used this ambiguous, yet powerful political position to further homogenise the local population on a nationalist basis. After refusing to participate in an all-Yugoslav referendum on a new federal constitution, Kučan took the opportunity of a mass demonstration in support of the Kosovo miners (see above) to further push the rebellion against the federal state: "Kučan portrayed Serbia as the enemy of Slovenian democracy, witnessed by its repression of Albanian rights. The act was more of an open appeal to the Slovenian public opinion on the constitutional question than ever before" (Woodward 1995a, 98). In a similar vein, Stubbs (1995) observes that the meeting "became less of an expression of solidarity than a drawing of parallels between Serbia's treatment of Kosovo and the likely future of Slovenia; pro-Kosovan miners became anti-Serbian centralists".

Notwithstanding the increasingly authoritarian rule of the Serbian leadership, the anti-Serb propaganda, and the discourse of economic exploitation of "Slovenians" by Yugoslavia and Belgrade, which started to dominate local public discourse, the explosive nationalism in Slovenia should also be seen in light of the following fact – the elites' promotion of "returning to Europe" was far from gaining popular support and this despite growing large-scale dissatisfaction with the Yugoslav system (cf. Jović 2009, 328). According to a public opinion study conducted in 1989, "the majority of our employees would not be ready to accept working conditions similar to those abroad and experienced by our workers in Western Europe, not even in exchange for a much greater income" (Delo 1989c). Moreover, as was mentioned above, Slovenian and Serbian leaders pursued different strategies of securing their class dominance and legitimizing the change in favour of capitalism. For Mencinger (2004, 68), the participation in the European integration project was the main driver of the Slovenian separatist movement: "Although the reasons for that disintegration [of the SFR Yugoslavia] remain dominated by political and ethnic considerations, the prospects of transition and accession to the European Union were among the major real arguments for Slovenia's secession".

At the background of another round of austerity measures, the intensification of the crisis and threat of political change in favour of centralization, the Slovenian leaders, side-lining with the demands of liberal and nationalist "opposition", gained popular support for constitutional changes and political independence. In April 1990, the first multiparty elections were held. The government was formed of an electoral coalition of seven opposition and anti-communist parties identifying themselves variably with nationalist, centre-liberal, and social-democratic agenda, called DEMOS (Stanojević and Krašovec 2011, 234); nevertheless, the party that received the most votes – and still with only 17% of the vote – remained the Communist Party, renamed the Party for Democratic Renewal. Many politically engaged intellectuals took the leading positions in the DEMOS coalition.[21] In the referendum held in December 1990, a large majority of the population decided in favour of political independence. The country formally became a fully sovereign entity in October 1991, with the implementation of political independence and the introduction of its own currency, the *tolar* (Mencinger 2004, 71-72).

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[21] For instance, Janez Janša became the defence minister, Igor Bavčar the minister of the interior, and Dimitrij Rupel the minister of foreign affairs.

Conclusion

This chapter has argued that the reasons and factors that shaped the demise of Yugoslavia through neoliberal primitive accumulation were constitutive and integral parts of the development of peripheral capitalism in Slovenia and should, therefore, be taken into account.

A plummeting current account balance in 1979 triggered a long and painful process of a fundamental WCA-led reorganisation of the Yugoslav socio-economic and class-power structures, as well as of their prime regulatory guarantor, i.e. the Yugoslav state. In many regards, the developments in Yugoslavia in the 1980s echoed the economic and political dynamics in other (semi-)peripheral countries, where mounting economic and financial difficulties revealed the unsustainability of the chosen growth trajectories, their socio-economic underpinnings, and the related mode of international integration. However, Yugoslavia was one of the few countries where attempts to stabilise the domestic economy with price and foreign trade liberalisation, fiscal and income restrictions, and the tight monetary policy of the independent central bank, provoked not only a major systemic change with the restauration of the private property regime, but a political one as well.

In fact, a very particular process unfolded in Yugoslavia during the 1980s, a process whose main issues and "idyllic" methods were already identified by Marx in his account of so-called primitive accumulation, namely the expropriation of the producing/working masses to establish capital-labour structures and relations through the use of non-economic means of violence and institutional coercion, which simultaneously act on three levels: a change of property regime, state remodelling, and re-insertion in the international division of labour. And it is worth repeating that Marx has also rightly underlined that this process "assumes different aspects in different countries, and runs through various phases in different orders of succession, and in different historical epochs".

In the context of the Yugoslav 1980s debt crisis, the expropriation took the form of the dispossession of the Yugoslav working class of its status of producer of value and of the related rights of political and economic decision-making. While this process was mainly orchestrated by the Yugoslav Communist leaders and the IMF using debt-repayment policies and structural adjustments as their prime "idyllic" non-economic instrument, it was given impetus by the labour movement that brought Yugoslavia to the edge of an open class struggle. In order to prevent this kind of confrontation, the Yugoslav state had to engage in the ultimate violent mobilisation of its own legislative powers – but this time, against itself. The extension of capitalism on the Yugoslav territory was not an outcome of some interplay of market forces or trans-historical laws of motion, but was the consequence of revisions of the legislation of the federal state and the republics. Nor was the establishment of a formally Slovenian independent state related to the alleged "exploitation of Belgrade" but was the expression of the break-up of the whole-Party class alliance of the leaders of the republics in the face of evaporating political legitimacy and the popular masses, who were revolting in their home republics. Once the systemic reform was launched, the leaders of the republics no longer needed to use the multifarious institutions of self-management that prevented the inclusion of Yugoslav labour in decision-making bodies at the federal level.

To study how the demise of Yugoslavia through neoliberal primitive accumulation shaped the restoration of capitalism in Slovenia, this chapter has proceeded in two steps. The first section has focused on the interplay of leading domestic and foreign actors, who considered the remodelling of Yugoslavia with the WCA as the best strategy to counter the crisis and establish the basis for a more sustainable development path. The transformation of the balance-of-payments problems into a soaring foreign debt in the early 1980s allowed the IMF to enter into the domestic bargaining arena and was used as an opportunity to link Yugoslav policy-making to the realisation of the global capitalism project. The initial WCA, prepared by the federal government and the IMF, consisted of two main principles: a) an export-led recovery with the reduction in domestic demand (wage and public expenditures) and the reinforcement of economic integration with convertible currency/EU markets, and b) the re-centralisation and reinforcement of state regulations, particularly those related to debt management and finances. By the end of the decade, however, a new element was added, i.e. the abolition of the social property regime and with it self-management and developmental protectionism.

As the second section has shown, the decision in favour of a systemic change took place only after a several-year-long pursuit of pro-cyclical debt-repayment policies, which mainly fuelled the already existing economic, political and social contradictions of the Yugoslav system and led to an explosion in the revolt of labour. The agenda seeking to simultaneously transfer the biggest part of the costs of the crisis to the working classes and to reinforce federal powers over finances could hardly succeed in the context of multi-scalar and divided state structures, where central conflicts over the reform process were channelled through regionally-based structures of power and political legitimacy. The securing of control over the instruments of macroeconomic policy at the regional level became essential, especially in those republics that were less dependent from federal transfers.

This inherent contradiction of neoliberal primitive accumulation in Yugoslavia, which exacerbated the ever-present tendencies of regional authorities to centralise state powers and apparatuses within regional boundaries at the expense of the federal institution, was particularly pronounced in Slovenia, the most industrialised and wealthiest region. In the Slovenian context, it also became very evident that rapidly changing international conditions acted as an additional source of pressure and the asymmetrical empowerment of particular social groups and classes at the expense of others. The export-oriented dominant policy agenda and the launch of the single market project reinforced the coalition of leading political elites and managers from export-oriented firms that favoured the participation of Slovenia in the European integration project as the best way to resolve the crisis. In the late 1980s, this agenda received additional popular support, especially from the domestic middle-classes, who exhibited a growing resentment against the Yugoslav state system of redistribution and defended republic-level autonomy over economic resources and policies.

In January, the 20th, 1990 the LCY ceased to exist. According to Centrih (2014, 4), "despite its relevance as the moment of formal dissolution of the LCY, the 14th Extraordinary Congress of the LCY was in fact only a spectacle in which earlier developments were merely confirmed and brought to conclusion". This section has suggested that one of the developments that was confirmed *ex post* in early 1990 was the conclusion of the initial phase of neoliberal primitive accumulation process. The profitability logic expanded not only to a new social sphere but to a whole territory and allowed for what Harvey (2003, 149) called "massive release of the hitherto unavailable assets into the mainstream of capital accumulation". A new territory of capitalist accumulation and class-power relations based on private property regime was established and its political boundaries delimited with the formally independent capitalist state of Slovenia.

The political separation did not evade the conflictual and internally antagonistic character of the Slovenian development away. In fact, the various moments and methods or neoliberal primitive accumulation continued to take place and became increasing shaped by Slovenia's integration into the EU/EMU regime.

5. SLOVENIA'S INTEGRATION INTO THE EU/EMU REGIME

1990–2007

Introduction

By "injecting" Slovenian producers and assets into the world economy and creating a capitalist private property regime, neoliberal accumulation processes allowed for the expansion of global capitalism into the Slovenian political economy. However, the development of capitalism in Slovenia was anything but certain.

The domestic authorities were faced with the challenge of recreating a domestic regulatory system of institutions and formal rules able to protect private property rights and to secure market allocation of resources, exchange of goods and services, and the accumulation of capital. Moreover, the recreated set of capitalist institutions and practices had to be able to restructure inherited productive capacities, skills, and capital stock in a way that would stabilise the domestic economy. Moreover, both the restoration of economic output and the restructuring of the relations between capital, labour, and the state were interdependent on Slovenia's capacities to secure its position in a rapidly changing global market, shaped by the rapid disintegration of post-war market regimes, the arrival of a large number of less-advanced industrialisers, and increasingly liberalised international flows of capital and trade. Finally, the faith of capitalist development in Slovenia rested on the capacities of the domestic ruling class to legitimise its power position and the post-socialist strategy of class dominance. In all respects, the prospects for participation in the European integration project proved to be crucial.

Note that the restoration of capitalism in Slovenia did not completely escape the military conflicts that shaped the dismemberment of Yugoslavia in the first half of the 1990s. When Slovenia, jointly with Croatia, declared its independence in June 1991, the Yugoslav army intervened. After the ten-day war, negotiations began between the federation and Slovenia, with representatives of the EU acting as mediators. By early 1992, Slovenia was also internationally recognised as politically independent.

Again, for analytical reasons, geopolitical issues and military conflicts are not discussed here. Instead, the main aim of this chapter is to explore how the decision of the Slovenian leaders to shift the stronghold of their class dominance from the multi-scalar and divided state structures of federalist Yugoslavia in favour of the EU/EMU incomplete state-building has impacted the development of "post-Yugoslav" capitalism in Slovenia. Thus, this chapter is analytically delimited by the period from 1990 to 2007. The year 1990 was when the Slovenian authorities formally declared their new class-territorial strategy, consisting of using the European integration project as an instrument to overcome local resistance and to shift unpopular decisions that could not be pushed through at one level onto another one, so that they could be implemented through external compulsion. The first multiparty parliamentary elections provided an opportunity for the formal announcement of this strategy, at that time most clearly articulated by the Party of Democratic Reform, that unified ex-members of the League of Communists of Slovenia, who chose "Europe now!" for their slogan (Hayden 2013, 377). At the same time, in contrast to many of its post-socialist peers, Slovenia recorded unbroken economic growth until the 2007–2008 global crisis. This relatively long period of solid economic recovery, which remained unchallenged by events such as the 1997 Asian crisis and the loss of monetary sovereignty in 2004, is particularly helpful for exploring mechanisms and modalities that shaped the development of peripheral capitalism in Slovenia.

To do this, the chapter analytically separates the development of capitalism in Slovenia into two processes following the proposed double transition approach. The dynamics of building the capitalist state are explored first, followed by a study of the changing form of the international integration of the Slovenian economy. The last part brings these two aspects together and scrutinises the form of development and its weaknesses. For greater clarity, Table 6 presents the main information about the socioeconomic dynamics and institutional changes that took place under various national governments.

Table 6 **Political and socio-economic dynamics, Slovenia, overview, 1990–2008**

GOVERNMENT [a]	ECONOMY [b]	MAIN INSTITUTIONAL CHANGES	SOCIAL MOVEMENTS	EUROPEAN INTEGRATION PROJECT
May 1990 – May 1992 LOJZE PETERLE (centre-right)	1990–1992 GDP growth: –6.4% Inflation: 147.9% Unemployment rate: 6.4%	▪ 1990: Establishment of a centralised fiscal system ▪ 1991: Establishment of the Bank of Slovenia	▪ Warning strike (March 1992) ▪ Farmers' protest (June 1993) ▪ Pensioners' protest (1993)	▪ 1991: Association Agreement ▪ 1993: Copenhagen European Council ▪ 1993: Cooperation Agreement
May 1992 – Jun. 2000 JANEZ DRNOVŠEK (centre-left)	1993–1999 GDP growth: 4.7% Inflation: 12% Unemployment rate: 8%	▪ 1992: Privatisation Law ▪ 1992: Pension System Reform ▪ 1994: Economic and Social Council ▪ 1995: Minimum wage ▪ 1997: Corporate tax reform ▪ 1998: Social protection and labour market reforms ▪ 1999: Pension system reform ▪ 1999: FDI liberalisation	▪ General warning strike (October 1996) ▪ Mass rally (March 1997)	▪ 1996: European Association Agreement ▪ 1997: Amsterdam Treaty and Agenda 2000 ▪ 1998: Launching of negotiations ▪ 1999: Helsinki Summit
Nov. 2000 – Nov. 2004 JANEZ DRNOVŠEK/ ANTON ROP (centre-left)	2000–2004 GDP growth: 3.7% Inflation: 7% Unemployment rate: 6.5%	▪ 2002: The BS's shift in favour of inflation targeting policy ▪ 2003: Labour market reform ▪ 2004: Definitive loss of political control over trade, competition and monetary issues	/	▪ 2001: "Big Bang" announcement ▪ 2002: Negotiation period closed ▪ May 2004: EU entry ▪ June 2004: ERM II entry
Nov. 2004 – Nov. 2008 JANEZ JANŠA (centre-left)	2005–2008 GDP growth: 5% Inflation: 3.6% Unemployment rate: 5.5%	▪ 2006: Tax system and social protection system reforms	▪ November 2005: Mass rally	▪ January 2007: Adoption of the euro

[a] The rule of the centre-left coalition was temporarily interrupted in the second half of 2000 after the prime minister lost a no-confidence vote. This led to the formation of a centre-right government under Andrej Bajuk. In the following parliamentary elections in late 2000, the party of Janez Drnovšek won decisively and formed a new ruling coalition. In 2002, Janez Drnovšek resigned and was elected president. The prime ministership was assumed by Anton Rop.

[b] Annual averages.

5.1. The making and dependent re-making of neo-corporatism with European asymmetrical state-building

To study state-building in Slovenia after the introduction of capitalist private property regime, this section discusses the establishment and transformations of the Slovenian neo-corporatist regime during the 1990s and 2000s. As more of an exception than the rule, the emergence and relative stability of the system of collective wage bargaining and social pacts gained significant academic attention. Today, most scholars agree that, solid as they might have appeared at first glance, the neo-corporatist arrangements went through considerable changes during the country's accession to the EU/EMU, especially in the second half of the 2000s: a combination of the country's entry into the EU in 2004 and the assumption of power by a centre-right government, followed by twelve years of hegemony of centre-left political forces, are often considered to be the main factors behind the erosion of Slovenia's neo-corporatism in the second half of the 2000s.

Here the analysis departs from elite-centred explanations to discuss the making and remaking of Slovenian neo-corporatism through the lens of the uneven reshaping of national state institutions by the EU/EMU regime. The progressive liberalisation of trade, monetary, and competition regimes from domestic pressures and democratic accountability, the reinforcement of the national executive, and the transformation of labour market institutions into the main mechanism of external adjustment were integral parts of the changing class-power balance in favour of capital and the related hierarchy of state apparatuses: the income-redistributive and risk-sharing components of the initial neo-corporatist arrangements weakened, whereas their role in securing external (price) competitiveness strengthened.[22] This section mostly discusses the mechanisms and power issues that fuelled such a territorial and structural remodelling of the domestic socio-political arrangements; a more quantitative assessment of the dynamics explored in building and remaking Slovenia is provided in the last section of this chapter (Section 5.3).

[22] For quantitative proof of this assessment, see Section 5.3.

The argument proceeds in three steps: the tilting of the class-power balance in favour of labour in the crisis of the early 1990s is studied first, followed by an analysis of the main socioeconomic pillars of the Slovenian neo-corporatist regime. The last part focuses on the uneven reshuffling of the established system during the EU/EMU accession period.

5.1.1. Radical macroeconomic restructuring and changing class-power balance during the early 1990s crisis

The political independence of Slovenia in the early 1990s was accompanied by a sharp economic crisis, often described in terms of "transformational depression", implying that the initial meltdown of post-socialist economies was related to systemic change and related institutional chaos. Many that question this view (cf. Amsden, Kochanowicz, and Taylor 1994, Podkaminer 2013), including Myant and Drahokoupil (2011, 59), explain that the crisis of the early 1990s was mostly the outcome of WCA anti-inflation stabilisation programs; they therefore claim that the notion of "Washington Consensus depression" is more accurate when referring to the initial crisis in the post-socialist region. Nonetheless, this notion also seems rather misleading when one is speaking about the developments in Slovenia; if not for any other reason than because, as seen in the previous chapter, the long and deep crisis of the Yugoslav economy in the 1980s was to a large extent related to the austerity-based WCA reforms. In fact, the economic meltdown was both the outcome and the cause of rapidly changing class-power structures and relations characterised by struggles over the extent of labour devaluation and the consolidation of key actors that would shape the development of capitalism in Slovenia.

The Yugoslav neoliberal primitive accumulation process created necessary structural conditions that enabled the Slovenian authorities to carry out an unprecedented attack on labour, legally codified in the shock therapy program prepared under the Marković government in 1989–1990. However, it was with political independence that the domestic authorities also gained effective control over the macroeconomic policy instruments and powers to implement the reform agenda. Nonetheless, based on the heritage of the popular revolts of the late 1980s, organised labour and the general public continued to contest for this to be transformed into a variable of external adjustment and heightened competition. Faced with the risk of another major political crisis, the authorities were pushed to switch their policy in favour of wage-led recovery and labour-inclusive policy-making.

5.1.1.1. Export-oriented and unilateral ad hoc interventionism

The disagreements over the political control of the emerging capitalist system and the "post-crisis" accumulation and regulatory regimes between the Slovenian authorities and the representatives of the Yugoslav federal state contrasted sharply with their consensus over the main principles of economic reforms (Woodward 1995a, 56-60, Géraud 2006, 219-22). In late 1989 and early 1990, the Slovenian government thus followed the shock therapy program prepared under the Marković government (Mencinger 2004, 71).

> With the advice from the Bretton Woods institutions and Western academics, the central Yugoslav government reacted to hyperinflation with a big bang in mid-December 1989, which served as a model for transition packages elsewhere in the region. The main elements were fiscal stringency, a freeze on nominal wages, a freeze on the exchange rate after the initial maxi-devaluation, and ensured convertibility for foreign exchange inflows to attract remittances. (Amsden, Kochanowicz, and Taylor 1994, 34)

After pursuing the program in the first half of 1990, the Slovenian government decided to slightly depart from the initial policy design to improve the export performance of the domestic economy (Mencinger 2004, 71, 75). Nevertheless, Mencinger (2004, 75) points out that "during the transformational depression, the essence of restructuring consisted of 'firing and retiring', combined with ad hoc government interventions in cases of large troubled enterprises". In fact, although Slovenia enjoyed relative autonomy from outside forces and political sovereignty over rebuilding domestic accumulation and regulatory regimes (Becker 2016), the main directives of stabilisation policies were in line with dominant prescriptions of the WCA.

For Majcen and Kamiński (2004, 139-140), most of the economic sectors "experienced the main shock of foreign trade liberalisation […] by 1993" (see Section 5.2.2.3). The government also "centralised the public expenditure management program, thus imposing hard budget constraints for the first time in many decades" (Cvikl and Gaspari 2004, 193). As late as 1992, the budget plans did "not envisage any resources for the financial restructuring of banks and enterprises, for covering losses […] and even resources [for] preserving the social security net [were] spent rather on hidden and passive subsidies of enterprises" (Borak

1993, 53). Fiscal conservatism was accompanied by a restrictive wage policy (Borak 1993, 50, Kraft, Cvikl, and Vodopivec 1996, 208-09). The role of a formally independent central banking authority was crucial here.

> Based on experience with expansionary monetary policies of the Yugoslav central bank, the central bank law gave the Bank of Slovenia full independence in conducting monetary policy. This proved to be crucial in implementing macroeconomic stabilisation policies […] one key was the tight monetary policy […] which was the exact opposite of NBY redistributive and expansionary monetary policy" (Kraft, Cvikl, and Vodopivec 1996, 208-09).

Exports were praised as the leading engine of economic growth and foreign investors as key actors for boosting local investment, especially in economic infrastructure (Mencinger 1991, 31).

What is more, with the government showing little concern for local representatives of workers, farmers, and employers, the initial policy-making and political coordination remained mostly unilateral (see below). In fact, according to Lukšič (1994, 18), the newly elected authorities considered both the reformed trade unions and the main employers' organisation to be unwilling remnants of socialism.

Pursued against the background of the already falling purchasing power and the administrative disintegration of the Yugoslav market and the clearing regime, the WCA-inspired ad hoc interventionism of the Slovenian authorities provoked a sharp domestic and external demand slump (Kraft, Cvikl, and Vodopivec 1996, 216, Kračun 2008, cf. Amsden, Kochanowicz, and Taylor 1994, 36-42). By aggravating the inherited economic problems, the chosen policy agenda brought Slovenia close to conditions experienced during the Great Depression (Križanič 1991, 25).

5.1.1.2. *Wage collapse, depressed domestic demand, and the economic crisis*

After the implementation of "shock therapy" in 1989–1990, Slovenia, together with the entire Yugoslav region, found itself in the most severe crisis after the Second World War (Mencinger 1991, 25). As can be seen from Table 7, between 1989 and 1992 GDP shrank annually by over 5% on average, industrial production by almost 9%, and investment by over 10%.

Local producers started to rapidly lose their domestic markets after the currency devaluation, the lifting of trade barriers, and an upsurge in imported consumer goods (cf. Amsden, Kochanowicz, and Taylor 1994, 39); price liberalisation and public investment cuts particularly hit economic infrastructure sectors, such as the railway, energy, and mining (The Executive Council of the Republic of Slovenia 1990a, 600). By 1991, unpaid electricity bills amounted to about 1% of GDP (Borak 1993, 51). Restrictive monetary and loan policies further exacerbated the liquidity crisis, which now started to endanger otherwise sound and profitable enterprises as well (Simoneti, Rojec, and Gregorič 2004, 225). The financial system found itself in a situation of technical bankruptcy (cf. Drenovec 2013, 103). In 1991, losses of firms already approached 9% of GDP, and the banks estimated that non-performing loans accounted for about 6.5% of GDP (Borak 1993, 51). Finally, inflation continued to remain high, even though it experienced a substantial fall after monetary independence and decreased from 247% (in 1991) to 93% (1992) and 23% (1993) (Bank of Slovenia 1994, 9).

Because the initial inflation was not adjusted to corresponding wage rises and other regular household incomes, wages recorded the biggest losses; by 1992 average real wages had decreased to less than 61% of their 1989 level (Podkaminer 2013, 15). In fact, in many enterprises there was no need for external politically imposed constraints on wage rises: the monetary constraints and cash-flow problems were such that they prevented enterprises from increasing wages, even to the extent allowed by the wage-control policy (Bole 1991, 35). At the same time, as can be observed from Table 7, unemployment soared, peaking in 1993, when 137,000 were registered as unemployed (Pirher et al. 2000, 9), in contrast to 28,200 in 1989 (Križanič 1991, 36).

Table 7 **Washington Consensus depression, selected indicators, annual change, 1988–1993**

	1988	1989	1990	1991	1992	1993	1994
GDP growth	–1.7	–1.8	–4.7	–8.9	–5.5	2.8	5.3
Registered unemployment rate	2.5	3.2	5.8	10.1	13.4	15.4	14.2
Industrial production	–2.6	1.1	–10.5	–12.4	–13.2	–2,8	6.4
Real gross investment	/	–10.1	–8.7	–11.5	–12.9	10.7	14.1
Trade balance as % of GDP	/	/	/	9.3	7	1.1	2.2
Average real wage index, 1989 = 100.0	/	100.0	73.5	62.4	60.6	69.3	73.5

Sources: GDP and industrial production (Bank of Slovenia 1993, 1994, 1995), registered unemployment (Pirher et al. 2000), real gross investment (UNECE 1993 (1989–1990), Podkaminer 2013 (1991–1994)), trade balance and average real wage index (Podkaminer 2013).

Whereas the loss of traditional markets in other former regions of Yugoslavia contributed much to the initial hardship, it is likely that the rapidly failing output was also, if not mainly, caused by a collapse in domestic demand and wage repression (cf. Myant and Drahokoupil 2011, 59, Kraft, Cvikl, and Vodopivec 1996, 216). Amsden, Kochanowicz, and Taylor (1994, 39-40) point out that "[c]ountries that experience export declines and adverse shifts in terms of trade typically see their trade balances deteriorate, not improve as they did in Eastern Europe". During the most severe crisis, in 1991 and 1992, Slovenia indeed succeeded in accumulating substantial trade balance surpluses, resulting not only from depressed imports but also from rapidly increasing exports (see Section 5.2.1). In fact, the Slovenian external position was quickly stabilised (Kraft, Cvikl, and Vodopivec 1996, 209): in addition to a positive balance of payment, the country also inherited a low level of debt burden, standing at about 14% of GDP in 1991 (Mrak 1993, 223).

Such a dismantling of productive capacities and skills was related to the rapidly changing class-power structures and relations in the domestic economy after the implementation of systemic reforms in the late 1980s. The initial phase of privatisation was mostly characterised by the phenomena of "wild privatisation", enabled by the limited supervision and loopholes in legislation (Simoneti, Rojec, and Gregorič 2004, 242). Bembič (2013, 2) compares "wild privatisation" "to the traditional methods of primitive accumulation – stealing another's property". Assets and profits were siphoned out, especially from relatively profitable and capital-intensive firms with high value added, where "the general managers established their own private (so-called bypass) firms before this was limited by the introduction of the so-called competition clause in the statutes of enterprises in 1993" (Domadenik and Prašnikar 2004, 250). "Wild privatisation" was indicative of a major class-balance reshuffling in favour of capital.

> The swift end of the exchange between the working class and the political elite provoked a radical change in the balance of power at the level of enterprises. The external sources of power of participation-oriented workers disappeared overnight: "self-managers [became] 'classic' wage-earners. They [became] exposed to the strong pressures of the now free labour market: firing workers and cutting down wages have become 'normal' legitimate management practices. The former political elites disintegrated under the influence of extensive delegitimation […] as well as new political actors reacted to the disintegration by developing different strategies to establish new sources of legitimation. (Stanojević 1994, 169)

The class-power structures of Yugoslav self-management, in which workers and elites formed a "grand coalition" against managers, were reconfigured dramatically in favour of three key "structural actors" that shaped the emergence and following development of capitalism in Slovenia: labour, capital, and the state.

5.1.1.3. The 1992–1993 popular revolt and wage-led recovery

A relatively autonomous policy-making space from outside actors also helped labour to impose itself as politically influential actor. In 1992 and 1993, the still-nascent capitalist state in Slovenia found itself on the verge of another major political and social explosion (Stanojević 2003a, 28).

Competition for gaining membership and legitimacy pushed the reformed trade unions to focus on the direct economic interest of workers and to further intensify strike activity "inherited" from the Yugoslav period. Workers joined the trade unions *en masse* after losing their central representative organ, the workers' councils (Stanojević 2004a, 119-20). Despite a massive contraction of industry, the high unionisation rate from the late 1980s did not decrease much – by 1994 it still stood at about 60% (Stanojević and Broder 2012, 306). Faced with collapsing wages and unilateral policy-making, workers, especially those from the most crisis-ridden and labour-intensive enterprises, intensified their pressure and held the first major labour action in 1992.

At the beginning of that year, the ruling coalition, with the support of many employers, used inflation and sagging competitiveness as an excuse to freeze wages, suspend collective agreements again, and unilaterally issue a draft agreement on social stability (Crowley and Stanojević 2011, 277, 280). The leading trade union confederation with social-democratic aspirations, the Association of Free Trade Unions of Slovenia (AFTUS), organised a massive warning strike that provoked a wave of strikes throughout the year (Stanojević 2003a, 28). Moreover, in early 1993, pensioners held a protest in the capital city to contest the "freeze" on pensions indexed to wages (Mekina 2017). Finally, the farmers proceeded even more radically. Following the March labour strike, they organised a protest to contest low agricultural prices. Because the recently elected government, now from the centre-left of the political spectrum, ignored their demands, they set up a strike committee and blocked the main border crossings for five days in June 1993 (Kračun 2008). Whereas the action of retired and active workers was particularly important for economic stabilisation, it was the joint weight of pressure from all three groups that shaped the establishment and arrangements of Slovenian neo-corporatism, discussed below.

After mid-1992, wages were allowed to rise, and in the following year the wage hike exceeded inflation (Kračun 2008). Because many expenditures were indexed (e.g., pensions, the public sector, and administrative salaries), the wage rise triggered state consumption expenses as well (Kračun 2008). Improved domestic prospects in turn improved business expectations and investment recovered, rising by almost 11% in 1993. As a consequence, Slovenia started to recover from the crisis as early as the beginning of 1993, when many European countries were still suffering from recession. Once the European recovery gained solid ground in the second half of 1993, "[t]he revival, firstly based on domestic demand, found its continuance with export increases" (Kračun 2008, 16).

Thus, paradoxically, it was social-democratic trade unions that played an essential role in the stabilisation of the economic crisis in Slovenia and the initial capitalist accumulation (cf. Pula 2016). As discussed below, by imposing itself as a politically influential actor, organised labour also pushed the elites toward more labour-inclusive policy-making.

5.1.2. Pro-European competitive solidarity regime and its four social partners

The 1992 strike wave tilted the balance of power in favour of labour. Taking place at a particular historical moment that was characterised by relative autonomy from outside forces, systemic uncertainty, and institutional fluidity (Chavance 2011, 167), the building of the main institutional forms of the emerging capitalist economy (Crowley and Stanojević 2011, 269) as well as a heightened need of the political elites to legitimise the systemic and political change, the mobilisation capacities of the AFTUS was a key factor for establishing power-sharing and an internally strongly integrated system. Privatisation in favour of insiders, tripartite bargaining, and an accommodating central banking authority were the main components of the neo-corporatist system, dominated by the coalition between relatively strong trade unions, a left-centre government, and dominant exporters (Močnik 2008, 78).

5.1.2.1. The privatisation method and cross-class coalitions

From 1991 onwards, power issues over the privatisation method and the new division of control over production and regulation antagonised governing parties (Mencinger 2004, 77). However, "[t]he ultimate decision […] was left to the balance of power 'on the ground'" (Stanojević 1994, 172).

There were, first, combative working classes, especially in labour-intensive industry. After the March strike, the AFTUS organised a special conference in October 1992 and brought forward an agenda that workers should be given the majority of enterprises' shares (Crowley and Stanojević 2011, 280). Then, there was a group of managers dominating technologically more advanced and export-oriented companies, who held a dominant position in the main employer organisation and enjoyed considerable political influence. These managers were also willing to negotiate with trade unions because the political instability and social disruption at home threatened their expansion abroad (Stanojević 2008, 27-28). Moreover, many members of this economic elite circle forged solid power ties with the political elites in the socialist system (Feldmann 2014, 80). However, in 1992 the newly formed centre-left government was not dominated by the former communists but by the Liberal Democratic Party, a successor of the youth "opposition from within" (Crowley and Stanojević 2011, 281). Therefore, the final[23] privatisation legislation adopted in late 1992[24] was a compromise that provided some concession for (striking) workers. In the longer term, the political transfer of social wealth into private hands proved to benefit especially capital and state actors, as further discussed below (see Section 5.1.3.2).

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[23] Initially, two competitive concepts were debated. The Sachs-Peterle-Umek concept favoured mass and rapid privatisation combining nationalization of enterprises in strategic sectors with the free distribution of enterprises' shares to all citizens (known as voucher or coupon privatisation). In contrast, proponents of the Korže-Simoneti-Mencinger concept favoured a decentralised approach with limited free distribution of property, preferential terms of sale for enterprises' insiders, concessions for foreign investors, and minimal state involvement (Simoneti, Rojec, and Gregorič 2004, 229-230). The first approach privileged state/political elites, whereas the second one sought to retain the power of "red" directors (Mencinger 2004, 77).

[24] This analysis deals only with "big" privatisation, which refers to the transfer of ownership of financial and non-financial enterprises. Other privatisation processes referred to the restitution of assets nationalised during the socialist regime (denationalization), privatisation of socially owned housing, and "small" privatisation. Small privatisation referred to the transfer of smaller public enterprises, mostly in retail and small-scale services, into private hands. For the privatisation of housing, see (Kržan 2014, 327). For denationalization, see Kržan (2014, 327) and Section 5.3.1. For an example of "small" privatisation, see Section 5.2.2.3.

With respect to the state, 40% of the shares of privatised firms went to state agencies.[25] Social enterprises were divided into three groups. The first group comprised public utilities and steel mills, which were nationalised. The second group consisted of the largest and most troubled enterprises, which were placed under the control of the national Development Fund, later transformed into the Development Corporation of Slovenia. For the third and largest group of enterprises, management-employee buyouts (MEBOs) were defined as the prime method of privatisation and the free distribution of vouchers as the secondary one.[26] The banking sector, however, was transferred from "corporate" to state ownership (Kržan 2014, 326). Under Yugoslav self-management, it has been already stated, commercial banks were owned and managed by enterprises; thus, they were supposed to be privatised automatically with "their" firms in the early 1990s. However, at that time most of the banking sector was insolvent. Therefore, in 1993 three major banks, accounting for more than half of the entire banking sector, entered a rehabilitation process under state supervision (Štiblar and Voljč 2004, 272; see also Section 5.2.2.2).

The gradual and multi-track approach to privatisation favoured the remaking of cross-class coalitions, echoing the cooperation under Yugoslav self-management between managers, workers, and political elites (cf. Feldmann 2014, 78). Moreover, the implementation of German-style codetermination prevented or slowed down the weakening of labour power at the firm level; in contrast to experiences in other CEECs, the Slovenian firm-based "unions [saw] works councils as an additional avenue for worker input" (Crowley and Stanojević 2011, 273). Finally, by transforming the rebelling "property-less" wage owners into capital co-owners, privatisation had an immediate "anti-strike effect" (Stanojević 1994, 169).

The negotiations over privatisation also offered the trade unions the opportunity to enter the sphere of political decision-making. By entering into dialogue with the government, they sent a clear signal that they could also act as corporatist, social partners during the country's accession to the EU/EMU.

[25] More precisely, out of the 40% share of privatised firms, the Development Fund received 20% of shares, the National Pension Fund 10%, and the Restitution Fund 10%.

[26] More precisely, 20% of a privatised firm was allocated to the company, whereas the allocation of the remaining 40% of a firm was left to insiders.

5.1.2.2. Tripartite internalisation of the EU/EMU constraints

The mobilisation capacities of the AFTUS and the wage hike that followed the 1992 strike sent a clear signal to the Slovenian authorities that no major decision on wages could be made without the approval of trade unions. Already before the 1992 election, the government was led to "accept union proposals to manage inflation via centralised collective bargaining" (Crowley and Stanojević 2011, 281). The main employer organisation, the Chamber of Commerce and Industry of Slovenia (CCIS), also accepted the unions' proposal for an ultimate instrument "to push the conflict-ridden issue of pay outside of the firm" (Crowley and Stanojević 2011, 281) and to come up with a competitive price policy (Lukšič 1994, 19).

During the long and painful negotiations over the first tripartite pact in 1994 (Stanojević and Krašovec 2011, 239), in exchange for the trade unions' approval over wage restraint, the government agreed to establish the Economic and Social Council (ESC); that is, the key institution of the Slovenian tripartite internalisation of the EU/EMU regulatory constraints. As highlighted by Lukšič (1994), the first agreement on income policy was actually a "social compromise. All three partners agreed on mutual recognition and on common negotiations and agreements over the main issues of social and economic policy. They accepted a pattern of political behaviour and resolution of problems that was completely different from the one that they reproduced during the years of 1990–93" (Lukšič 1994, 20).

It is worth highlighting that, at its beginnings, the decision-making capacities of the ESC were very limited because the state representatives in the government simply ignored and dismissed the agreements made within this tripartite organ (Lukšič 1994, 21). It was only after substantial political pressures from various social groups (trade unions, academics, journalists, etc.) and the decision of the parliament that wage issues had to be discussed within the ESC that the centre-left government took tripartite bargaining more seriously (Lukšič 1997b, 198).

The signing of the EAA in 1997, when annual inflation stood at about 9%, provided additional, if not decisive, incentive for the government's acceptance of the trade unions as "partners" during EU accession (Skledar 2000, cf. Stanojević and Krašovec 2011, 241). After the third social pact was agreed in the middle of that year, employers tried to reduce the social provisions in a general collective agreement. In October 1996, the trade unions held a general warning strike; this time, they gained the support of the government, which restored the cancelled agreement (Stanojević 2011, 116-17).

The income policy decisions reached within the ESC were implemented through centralised and coordinated collective agreements. Due to compulsory membership in the employer organisation, practically all workers were covered by the collective agreement. The focus of social pacts, agreed between 1994 and 2007, progressively expanded from the wage issue to include other policy areas as well, such as social welfare, employment and housing issues, health care and taxation, and so on.

It is worth noting that the internal fragmentation of political actors played an important role in the systemic conclusion of social pacts during the European integration project. Faced with relatively strong trade unions and strict convergence criteria, weak and unstable government coalitions have been "inclined to pursue social dialogue as a potential source of further legitimisation. This tendency was strongly accentuated in the 1990s during the process of EU accession" (Stanojević, Kanjuo Mrčela, and Breznik 2016, 6).

By participating in the policy-making process, the initially oppositional social force progressively transformed itself into "responsible, constructive co-creators of social-order" (Stanojević 2012, 874-75). The internally well-integrated and labour-inclusive system of public policy-making was very functional in terms of a political legitimation of European integration and the institutional adjustments of the Slovenian regulatory framework to the EU/EMU regime.

5.1.2.3. The accommodating stance of the Bank of Slovenia

However, the main three neo-corporatist institutional partners were not enough for successful pursuit of a policy of gradual income restraint and inflation reduction. Inflation reduction could be achieved only in cooperation with monetary policy and the central banking authority. Therefore, the discussion on Slovenian neo-corporatism has to consider the interaction of the tripartite bargaining structures with the Bank of Slovenia (BS). The structural reforms of the monetary system in the late 1980s and political separation led to the emergence of a new powerful monetary institution. The BS was accorded powers and capacities to establish smooth functioning of payments and price stability as its main objectives, and on a formal level to pursue the monetary policy chosen regardless of rival political preferences and interests (cf. Greskovits 2009, 203).

However, the precise use of these policy instruments mostly depended on the established class-power balance. The struggles over the wage-labour setting in the early 1990s were directly linked to the monetary policy and exchange rate management. For Bembič (2013), the inclusion of labour in macroeconomic policy-making consolidated the choice for the monetary regime, which is able to bypass direct confrontation with relatively strong labour. Therefore, "after the initial pure float, a managed floating exchange rate regime was chosen, with the central bank very much concerned to bring about a 'controlled' appreciation of the new Slovenian currency, the *tolar*, so as to reduce pressures on the export sector" (Mrak, Rojec, and Silva-Jauregui 2004, xxiii). By departing from a fixed regime, the BS preserved the functions of a "normal" central bank; that is, managing the money supply through interest-rate policies, acting like a lender of last resort, and, finally, exchange rate management (Greskovits 2009, 205). Monetary and exchange rate policy could be therefore used to counteract the fluctuations on international markets and to impact local demand management (Feldmann 2006, 848-49).

Due to its deep accommodative stance in coordinated policy-making, Greskovits (2009, 220) emphasised that the BS played a unique role of social partner during the accession period (cf. Becker 2016, 44). "A floating exchange rate [...] favoured exports and increased the room for wage increases" (Becker 2016, 44). Periodic devaluations of the national currency particularly helped technologically less advanced firms face pressures from international competition (see also Section 5.2.1.2). Moreover, to prevent the potentially destabilising effects of foreign financial inflows and uncontrolled foreign indebtedness, the BS systematically redirected accumulated foreign currency into foreign exchange reserves (Bole 2004, 183, Drenovec 2013, 153-54). In a similar vein, despite the liberalisation of the payment system, capital controls were temporarily imposed in the second half of the 1990s in order to prevent the appreciation of domestic currency (Bole 2004, 183-84, Feldmann 2006, 846).

Stanojević (2012, 869) defines the socioeconomic arrangements of Slovenian neo-corporatism, characterised by gradual lowering of inflation, relatively high protection of the core labour force, and the export sector's price competitiveness (see also Section 1.3.1), as "the Europeanising, clearly purposively oriented system of competitive solidarity". Therefore, in terms of structural hierarchy and policy norms, the established system was characterised by power-sharing arrangements between labour, monetary, and competition regimes. However, this system was not stable. In fact, as Stanojević (2012, 869) explains, from its very beginning, the Slovenian regulations were exposed to the pooling effects of the EU/EMU regimes. Below, the analysis proposes considering these "pooling effects" through the lens of the asymmetrical effects that the EU's eastward enlargement strategy and the EU/EMU regulations caused on national state institutions and power relations among their representatives.

5.1.3. EU/EMU-led state reshuffling for more competitiveness and less solidarity

Several authors have acknowledged that EU accession played an important role in further liberalisation of the CEECs. By focusing in particular on the economic *acquis* (i.e., harmonisation of legal norms over the business and financial sector), accession negotiations clearly endorsed "a neoliberal agenda, including privatisation, a reduction of state involvement in the economy, and further liberalisation" (Myant and Drahokoupil 2011, 91). However, the domestic economic policy agenda was only one field of the (contested) EU/EMU "pooling effects" that, in terms of regime pressures, emerged after the formal launch of negotiations in 1997. By reinforcing executive state organs and shifting political control over trade, monetary, and competition policy away from domestic pressures and democratic accountability, the "explicit accommodation [of Slovenia] to the EU/EMU regime" (Stanojević 2011, 117) helped limit manoeuvring space, bargaining capacities, and consequently the power of institutions and actors defending labour rights and redistributive mechanisms. Whereas trade unions did succeed in defending their institutional inclusion in policy-making, they could not prevent progressive reinforcement of the principle of (price) competitiveness within the hierarchy of the neo-corporatist regime.

5.1.3.1. *Territorial rescaling of trade, monetary, and competition regimes*

The shifting scales of political authority over trade, competition, and the monetary regime represented the first major internal displacement in the structures of Slovenian neo-corporatism.

The transfer of competencies over the trade regime took place from the mid-1990s onward, when "Slovenia opted for bilateral liberalisation of its foreign trade policy driven almost exclusively by the goal of joining the EU" (Majcen and Kamiński 2004, 140). In 1997, the EAA ended the aforementioned Yugoslav Cooperation Agreement that until then had framed trade relations between the EU and Slovenia. The government immediately abolished customs duties for 41% of total imports and committed itself to reducing customs duties on other imports by the end of 2000, even though the date for completing the liberalisation process was set for January 2002. For Majcen and Kamiński (2004, 141), "Slovenia pursued this pattern [of foreign trade liberalisation] with greater zeal and determination than many other candidate countries".

In a similar vein, to adapt to single-market competition rules, the government speeded up FDI liberalisation after 1999: the banking sector (1999) was liberalised first, followed by electricity markets (2001), natural gas (2003), and telecommunications (IMAD 2002, 43-44). At the same time, the main mechanisms of state aid for economic restructuring had to be abolished; among other things, tariffs were halved and the Development Corporation was liquidated in 2002 (see also below) (Simoneti, Rojec, and Gregorič 2004, 229, Kržan 2014, 328).

Likewise, after the EC warned Slovenia in its 2001 monitoring report that "the persistent inflation, linked to widespread indexation in the Slovene economy and to the monetary and exchange rate policy framework, remains a concern" (Commission of the European Communities 2001, 33), the BS moved away from targeting growth to prioritising inflation targeting (Silva-Jauregui 2004, 140). After all, setting price stability as the main objective of monetary and exchange rate policy was the main requirement related to the deterritorialisation of political authority over Slovenia's monetary policy in favour of EU authorities (IMAD 2002, 31). The BS's policy shift was accompanied by a de-indexation of wages, abolition of controls over capital flows, and progressive reduction of interest rates (see also Section 5.2.3) (Kračun 2008, Kržan 2014, 328).

At the same time, financial markets were progressively liberalised and real interest rates reduced (Kračun 2008, 17). After the country entered the ERMII exchange rate mechanism in June 2004, the Slovenian central banking authority lost its monetary sovereignty and the capacities to use the exchange rate mechanism. Similarly, financing the public sector within the framework of monetary policy was abolished and the state's privileged access to assets of the BC was prohibited. With the introduction of the euro in January 2007, the BS became a member of the European System of Central Banks and responsible for implementing monetary policy, managed by the ECB, at the national level (Bank of Slovenia 2015, 7).

The uneven and progressive territorial rescaling of neo-corporatist regulations was not a mere technical "adjustment" of the Slovenian regulatory framework to the EU/EMU regimes, but implied a fundamental structural change in the national corporatist setup (cf. Boyer 2000, 35). The transfer of trade, monetary, and competition regimes at the EU level was not accompanied by a similar transfer of competencies over the labour market and fiscal regimes, which (mainly) remained regulated at a national level. As a consequence, political authority, accountability, external pressures, and the capacities of domestic social actors and institutions to impact the policy-making process were radically reshaped and tended to privilege central state bodies and capital over representatives of and institutions with a pro-labour agenda.

5.1.3.2. *Empowering central state representatives*

As seen in the first section, the initial relations between the representatives of state, capital, and labour were all but "cooperative". The government was very reluctant to accept the ESC as a policy-making structure and embraced it only when the negotiation process started. Nevertheless, for Krašovec and Johannsen (2016), the state continued trying to preserve its capacity for autonomous action. For them, the privatisation outcome and the EU integration process were important sources of state-capital empowerment.

After the consolidation of ownership structure in the early 2000s, it became clear that the domestic representatives of capital and the state controlled most of the Slovenian economy (Simoneti, Rojec, and Gregorič 2004, 231). Private investment funds obtained the bulk of the shares of "social" capital with the certificate vouchers that were initially freely redistributed to citizens and that the latter "sold" to these funds. "However, the control of investment funds was soon centralised in the hands of their managers rather than 'shareholders', and the most of the equity was centralised in few of the existing 24 holding companies" (Kržan 2014, 326). At the same time, because about 40% of the shares of each company were transferred to the pension fund and the restitution fund, these quasi-governmental funds became the second-most important owner of the domestic enterprise sector (Simoneti, Rojec, and Gregorič 2004, 231). Workers received significant shares only in the most conflict-ridden labour-intensive firms that struggled to survive in the new market conditions (Stanojević 2012, 865, Simoneti, Rojec, and Gregorič 2004, 231-32). Such a class-based redistribution of control over the means of production and sources of profits led Stanojević (2012, 865) to speak of the formation of transitional state-managerial capitalism. As a consequence, a powerful elite network of cross-membership emerged, driven by the circulation of actors across business, politics, and administration (Krašovec and Johannsen 2016, 4).

At the same time, most of the strategic documents submitted to the EC between 1998 and 2004 were authored by the central government, whereas actors at other levels or from other sectors had only a limited impact on the content of the accession process (Bache et al. 2011, 131).

> Although the preparation for EU membership was the big issue from 1996 onwards, in reality, only a limited number of social partners were included in the process. Securing membership took priority, and the ministries tended to keep coordination in-house, resulting in the gradual centralisation (and Europeanisation) of the government and administration. (Krašovec and Johannsen 2016, 4)

Tsakatika (2009) shows that the accession process was intensively coordinated between the Slovenian state executive and the European bodies insulated from any form of democratic control and popular accountability. For instance, in 2000, the Slovenian Ministry of Labour and Directorate-General Employment signed the Joint Assessment Paper "to advance the country's labour market transformation, to make progress in adapting the employment system so as to be able to implement the Employment Strategy and to prepare it for accession to the European Union" (Tsakatika 2009, 11). The implementation of this Employment Strategy, based on the directives set by the Treaty of Amsterdam and Lisbon Strategy, was monitored by the EC; the EC actually dominated the entire accession process (Tsakatika 2009, 11).

Therefore, "in retrospect, many people within the government and administration may have felt the need to regain autonomous capacity; that is, the corporatist arrangement was seen as a straitjacket, if not an outright state capture" (Krašovec and Johannsen 2016, 4). The first major opportunity allowing the Slovenian political authorities to relieve themselves from corporatist constraints appeared in the mid-2000s, when the problem-load (inflation) and the institutional driver (EU accession) of the tripartite consulting disappeared practically overnight (cf. Feldmann 2014, 84). In fact, Stanojević and Krašovec (2011, 251) observe that in the mid-2000s, when Slovenia entered the EU and the ERMII regime, "[t]he government's cooperation with the trade unions evaporated, and the ESS practically ceased operating".

However, despite its anti-labour stance, the European move to a single currency, formally embraced by Slovenia starting in 1996, was not hostile to national bargaining per se (Crouch 2000). As the following discussion demonstrates, the constraints of the EMU regime encouraged a revival of neocorporatist bargaining, although a very precarious one, and facilitated its transformation toward a purposively system of managing (price) competitiveness.

5.1.3.3. A precarious revival of neo-corporatist bargaining for more competitive labour markets

A territorial rescaling of political sovereignty over monetary and competition regimes, as well as the reinforcement of the executive, were key mechanisms through which the European elites, including the Slovenian ones, sought to reconfigure the bargaining capacities and power of labour in national arenas, making it more responsive to pressures of heightened competition and free flows of capital and commodities (cf. Durand and Keucheyan 2015, 6). Stating that in the Slovenian political economy "a [policy] shift is only possible if assisted by an exogenous shock, for example accession to the EU and meeting of the related economic criteria", Rojec et al. (2004, 462) clearly suggest that the EU/EMU constraints were instrumental for overcoming domestic popular pressures and opposition.

The political dynamics of the pension system reform in 1997 was indicative of the relative capacities of domestic institutions and actors that defended policies that fostered income redistribution and social protectionism. The government immediately took the beginning of the negotiating period as an opportunity to undermine welfare state provisions and reduce state expenditures. The announced reforms "were anything but gradual [and] strongly influenced by the solutions favoured by the World Bank […] because of strong opposition from various quarters the original proposals were watered down considerably" (Stanovnik 2004, 322). Trade unions succeeded in gaining broader support and organised mass protest with over 20,000 participants in March 1998, which represented the peak of a two-year-long wave of strikes in the public sector. The rally was repeated a year later (Stanojević 2001, 809, 2011, 119).

However, by entering into the pro-EU coalition and taking part in the accession process, organised labour internally transformed and, paradoxically, actively participated in the structural weakening of its own bargaining capacities and manoeuvring space (cf. Stanojević 2012, 872). Although it is true that trade unions played a crucial role in slowing down the dismantling of the welfare state provisions, this came at a substantial price. Since the mid-1990s, a restrictive wage policy, which set wage growth below GDP or productivity growth, was routinised and legitimised by a regular series of bargaining between the main institutional social partners. This readjustment of the representatives of labour, encouraged by EU/EMU accession, peaked in 2003 with the signing of a social pact in view of the forthcoming integration into the EU and the EMU, in which "labour markets are supposed to be flexible [meaning] *downward* wage flexibility" (Stockhammer 2014, 5, emphasis in original). "[I]n April 2003 Slovenia's social partners signed an encompassing pact on future wage and income policy, thereby emulating the pacts […] signed in many old member states during their run up to the EMU" (Bohle and Greskovits 2012, 215); that is, agreements in which national actors prepared in advance for a new competition regime under the moto "let us make labour markets more flexible" (Boyer 2000, 40).

Accompanied by a labour market reform that undermined the standards of a core labour force for the first time (see Section 5.3.2), the social pact acted like a boomerang: after succeeding in stabilising its membership at about 44% during the accession period, trade unions saw workers leaving their representatives *en masse* between 2002 and 2004, when the membership rate dropped from almost 45% to 37%; by 2007, it was already below 30% (Broder 2016, 41).

Such a rapid fall in trade union membership cannot be explained only by structural factors related to the reduction of labour-intensive industry and the intensified internationalisation of Slovenian production and finances, discussed in the following sections. Political developments also mattered. During the first half of the 2000s, the cross-class coalitions that shaped regulative regimes at the company levels disintegrated substantially under the pressures of accelerated liberalisation of the Slovenian economy (Stanojević 2012, 870). The Program for Efficient Entry into the European Union, enacted by the left-centre government in 2003, served as a template for the reform package proposed by the following conservative ruling coalition. When the 2004 elections brought the right-wing government to power, the latter mainly "capitalised on the achievements of Prime Ministers Drnovšek and Rop", as Močnik (2006, 119) underscores. The program of economic and social reforms from 2005 was "basically formed under the former government but then sharpened by the new government's neoliberal advisers" (Stanojević 2011, 122). For Šušteršič et al. (2008, 35), the 2003 program and the 2005 reform package were turning points in the Slovenian political trajectory, announcing "the departure from gradual economic policy first at the macroeconomic level and then at the structural level as well".

After the right-centre government announced the package of radical reforms, the AFTUS organised the largest public protest in 2005 since the separation from Yugoslavia, joined by around 40,000 workers, and pushed the government to step back. This open confrontation, echoing the conflict from the early 1990s, was nonetheless followed by a rather uncommon political deal: in exchange for the removal of only one reform proposal – namely, the flat tax reform – the trade unions accepted entering into dialogue with the government (Stanojević 2015, 408-09). Within the EMU framework, labour-market institutions became the main mechanism of economic steering preserved at the national level, and so the trade unions tended to have "the strongest *relative* preference for neo-corporatism in the choice between it and either deflation or deregulation […] they are likely to seek this goal wherever the basic institutional design makes it feasible" (Crouch 2000, 224; emphasise in original).

Moreover, after the entry into the preparatory regime for adopting the euro, the bargaining position of trade unions was further undermined by the changed status of the main employer organisation. In 2006, the government abolished obligatory membership in the CCIS; seeking to secure its membership, the CCIS demands radicalised substantially and assumed a tougher negotiating stance (Stanojević 2012, 817).

By succeeding in securing the sources of their institutional power, organised labour "disciplined" the government's reform zeal, obliging it to implement most of the announced reforms more gradually. Inflation, rapidly rising after 2006, provided an additional motive encouraging institutional social partners to revive tripartite bargaining and to sign the 2007–2009 social pact. Its regulatory powers were, however, relatively weak; among other things, faced with rapidly shrinking membership and workers' discontent, the trade unions soon abandoned their commitments to wage guidelines (Leskošek and Dragoš 2014, 42, Stanojević and Krašovec 2011, 249).

Conclusion

This section has argued that class-power struggles over the organisation and hierarchy of the Slovenian state apparatuses, especially with respect to the role of labour market institutions and wages in securing external competitiveness, played a crucial role in the development of peripheral capitalism in Slovenia. The regaining of political sovereignty over macroeconomic instruments, and the establishment of fiscal and a formally independent banking authorities allowed the Slovenian government to realise massive devaluation of labour with the implementation of shock therapy. At the same time, a relatively strong labour movement succeeded in slowing down the neoliberal zeal of the authorities and pushed forward the establishment of a neo-corporatist framework. In fact, leading exporters, trade unions, and left-centre ruling political factions forged a powerful coalition unified under the aim of joining the EU/EMU regime. However, the institutional internalisation of the EU/EMU rules produced powerful, although uneven, feedback effects on those same state apparatuses and social actors that actually politically sustained and legitimised the integration process. It was not that institutions and actors had lost their importance in national arrangements; in fact, their institutional importance was somehow reinforced, but their roles and bargaining capacities within the national setup changed.

The remodelling of domestic socio-political arrangements in line with the EMU regime helped reshuffle power positions and bargaining power among various state apparatuses; as has been seen, starting in the early 1990s state-building in Slovenia was shaped by the ongoing struggles over the extent and the depth of the liberalisation of the economy and the position of the principle of (price) competitiveness in the hierarchy of state apparatuses. The uneven EU/EMU state-building helped to weaken pro-labour representatives further and to push them into a (subordinated) position where they could (at best) make the transformation of labour-market institutions and wages into an external adjustment variable only more discretionary.

Departing from Stanojević (2012), who highlights the “polling effects” that EU/EMU accession exercised on Slovenian arrangements from the mid-1990s onward, this analysis makes three contributions to existing discussions. First, it departs from accounts pointing to the key role of the swing in the political pendulum to the centre-right in 2004 for weakening neo-corporatist policy-making after the country’s accession to the EU (Bohle and Greskovits

2012, Stanojević 2014, Guardiancich 2016). The Janša government's radical and authoritarian move was less the cause of the weakening of the neo-corporatist arrangements but was, instead, already the consequence of the reshuffling of domestic class-power balance at the expense of labour under the EU/EMU state-building. The latter empowered executive state bodies and displaced regulations over competition and monetary policies away from territorialized "national" bargaining arena.

Thus, the EU/EMU "convergence criteria" were not just about the liberalisation and a fiscal "disciplinarisation" of the candidate countries' economies, as it is often acknowledged in the literature (Lindstrom and Piroska 2007, Myant and Drahokoupil 2011, 90-93, Bohle and Greskovits 2012, 87). In Slovenia, the so-called "adjustment" to the EU/EMU regime implied a fundamental restructuring of the territoriality, democratic accountability, and political authority of domestic regulations that made the Slovenian state institutionally incomplete, partly displaced and empowered vis-à-vis domestic labour. Finally, all of these changes produced powerful, although rather negative, feedback effects on Slovenia's capacities not only to forge and sustain social compromises, but also to regulate domestic economic activity.

In fact, the more the Slovenian state apparatuses were re-made under the EU/EMU regime and favoured external (price) competitiveness at the expense of an income-redistributive and risk-sharing policy, the more the external position of Slovenia was undermined and the vulnerability of the domestic economy increased. To understand this puzzle, it is necessary to study the pattern of dependent restructuring of the Slovenian economy.

5.2. Dependent economic internationalisation under the European foreign capital promotion

The Slovenian "return to Europe" not only implied a total reworking of state regulations but also a complete remodelling of economic production. As late as 1992, total external trade did not reach $15 billion, but by 2008, when the crisis unfolded, Slovenian total exports and imports exceeded $75 billion. In a similar vein, total inward and outward FDI (IFDI, OFDI) stock grew from a modest $1.2 billion to almost $20.4 billion.[27] These very rough figures indicate a significant change in domestic production in favour of increased internationalisation. This section explores the factors shaping the depth and form of the changing international integration of the Slovenian economy. There are few that would contest that the reintegration of the Slovenian economy into the global economy took a dependent form and was based on interdependent yet asymmetrical strengthening of links between Slovenian producers and leading European countries. However, the exact modalities and channels of increasing economic dependency deserve to be scrutinised further, especially in light of the severe crisis that hit the country at the end of the 2000s.

The argument defended here is twofold: first, the dependent international integration of the Slovenian economy was shaped by the main regulatory pillars of the EU's eastward enlargement strategy, which promoted foreign capital and demand as the main engine of economic restructuring: the EU asymmetrical trade agreements, the liberalisation of FDI under the provisions of single market, and the EMU-led liberalisation of financial markets coupled with the transfer of the monetary regime created the main structural channels that allowed for the increase in asymmetrical dependency between the Slovenian economy and EU markets. However, second, the concrete manifestations and restructuring of domestic production under EU dependency relations was mostly shaped by inherited productive infrastructure, domestic power struggles and their institutionalised outcomes, and the capacities of actors to assert their interest.

[27] Data are taken from UNCTAD.Stat and are given in US dollars at current prices and current exchange rates in millions.

This argument is presented in three steps following the three mechanisms of economic dependency as defined in the theoretical framework (international flows of trade, productive capital (FDI), and money capital): the export-led reconversion of Slovenian industry is studied first, followed by an account of the slow(er) expansion of foreign investments. The last part examines the dependent reintegration of the country in money capital flows.

5.2.1. Transforming distressed exporters into reliable suppliers

A relatively rapid re-orientation of Slovenian production in favour of the demand on the leading EU markets after the collapse of communism has been often associated with favourable legacies, such as relatively well-developed industrial structures, the already established trade and service links with capitalist economies, earlier structural reforms, a relatively autonomous management knowhow related to self-management, and so on. This part, however, complements these claims by highlighting two other factors: whereas the collapse of domestic demand and the unprecedented devaluation of labour during the early 1990s crisis provided crucial stimulus for export reorientation, favourable trade agreements with the EU led to an increase in export dependency.

5.2.1.1. *The early 1990s macroeconomic surgery, EU trade agreements, and the increase in export dependency*

By creating conditions in which "[e]xport expansion towards the West gave the only hope for survival" (Kračun 2008, 10), the radical economic restructuring from the early 1990s played a decisive role in the reconversion of Slovenian production from inward-oriented to an outward-oriented form. The early stabilisation and liberalisation policies exacerbated the inherited problems of corporate-banking indebtedness, regardless of the actual origin of financial difficulties, past debt-financed investment projects, and past trade deals with little chance of repayment or to current spending (and wage payments) (Bole 1991, 34, Tajnikar 2001, 332, Myant and Drahokoupil 2011, 219-22). Cashflow difficulties and falling demand thus fuelled an ever-enlarging group of "exporters in distress" (Kračun 2008, 10) that were forced to expand their sales on the markets of the leading EU countries, and this regardless of earned profits; the main motive was to obtain means of payment (Bole 1991, 34).

The trade reconversion in favour of EU demand was further enhanced by the collapse of demand on "traditional" markets in other Yugoslav regions and CMEA. They were also to a large extent politically shaped because the domestic authorities were led to adopt one or another variant of WCA-designed stabilisation programs and hastily modified trade arrangements at the expense of "socialist" trade links (Podkaminer 2013, 14). In the Yugoslav region, the newly established leaderships, including the Slovenian one, did not hesitate to further restrict mutual trade and on several occasions brought regions to the verge of trade wars. At the same time, there was a strong preference for increasing trade relations with the leading EU countries (Borak 1993, 49, Economic Commission for Europe 1993, 91).

In fact, with the signing of the Association Agreement in 1991 Slovenia, together with other CEECs, made the first formal step toward European integration, which was marked by the agreement over the gradual liberalisation of trade. However, in 1992 the EU authorities reactivated the old Cooperation Agreement, signed with Yugoslavia in 1980. This agreement made "a specific difference between Slovenia and other Eastern European states" (Kumar 1993, 84) by giving the Slovenian exporters practically unlimited duty-free access to most EU markets for industrial products they already had within Yugoslavia (Majcen and Kamiński 2004, 141). In contrast, other CEECs' "access to Western markets remained singularly restricted in low-tech products (such as food, textiles, basic chemicals, steel or cement), in which the CEEC exporters could have been quite competitive in the early 1990s" (Gowan 1999, 208-09, Podkaminer 2013, 22-23).

In addition to favourable trade arrangements, the initial entrance to the EU markets was facilitated by a relatively favourable productive legacy. Slovenia developed not only complex machinery manufacturing but also a strong light industry and segments of more sophisticated and product-quality-oriented production. The share of industry specialised to exclusively supply the Soviet bloc and which struggled most in finding new market outlets was rather small in Slovenia (Myant and Drahokoupil 2012, 218). Compared to other CEECs, Slovenian exports were much more diversified because they included machinery and other complex manufacturing products, as well as those from semi-manufacturing and light industry.[28]

[28] Because of comparatively more developed and competitive production structures, the production of simpler products and outward-processing trade (OPT) played the least important role in Slovenia. The OPT was a sort of "probing" strategy of the most desperate firms, mostly based on price and (low) labour cost competition, whereby domestic producers imported designs and materials from Western partners and then exported finished products to the same partner (Myant and Drahokoupil 2011, 218). The average shares of OPT in the total trade

Thus, with an average annual growth of exports of over 6%, Slovenia by far outperformed its regional peers during the radical economic restructuring in the early 1990s. Between 1990 and 1992, exports either stagnated or contracted sharply in the CEECs, with the exception of Hungary (Landesmann 2000, 9, cf. Gowan 1999, 208-09, Podkaminer 2013, 22-23). This point is also illustrated by Figure 14 in Section 5.2.1.2 below, showing that by the mid-1990s exports already represented over a third of GDP in Slovenia.

When speaking of the initial competitiveness of Slovenian production and a "smooth" reorientation to the EU markets, the unprecedented devaluation of labour should be acknowledged as well. For Kračun (2006, 69), the "early export expansion of the Slovenian economy was possible only on the basis of low [labour] costs." The wage slump and massive layouts politically constructed in Slovenia a unique combination of cheaper, "Eastern"-level labour costs and a trade structure most (significantly) similar to those of Western European countries (OECD 1997, 116, cf. Bole 1992, Kračun 2008). Labour devaluation from the early 1990s was therefore not only the sign of rapidly changing power relations, but also of a rapidly changing form of international integration of the Slovenian economy. Pleskovič and Sachs (1994, 208) report that, as a result of the decline in output, exports as a percentage of GDP increased from 39.5% in 1989 to 53.2% in 1991. One could also reverse the relational direction to claim that the shifting class-power balance in favour of capital was a necessary condition for increasing dependency via the channel of international trade.

However, the 1992–93 protests significantly dampened the attempts by the Slovenian ruling elites to use the labour market and wages as major adjustment mechanisms to their changing development strategy. Although the inclusion of labour in policy-making was not sufficient for the reconversion of the underlying trend, it nevertheless played a decisive role for a specific pace and depth of the reconversion.

5.2.1.2. Securing export reconversion with systemic and defensive interventionism

Because the WCA exacerbated the inherited corporate debt problems, also undermining the stability of otherwise profitable enterprises, the survival of most of the economy depended on firms' capacities to overcome cash-flow difficulties (Myant and Drahokoupil 2011, 217). After being pushed to take responsibility for the economic restructuring (cf. Tajnikar 2001,

turnover between the CEECs and four major European economies (France, Germany, Italy, and the UK) in 1995 were the following: Slovenia 6.3%, Slovakia 9.6%, Czech Republic 11.9%, Hungary 13.1%, and Poland 13.2% (OECD 1997, 117).

333), Slovenia introduced various measures that eased the adaption of firms to heightened competition at home and abroad.

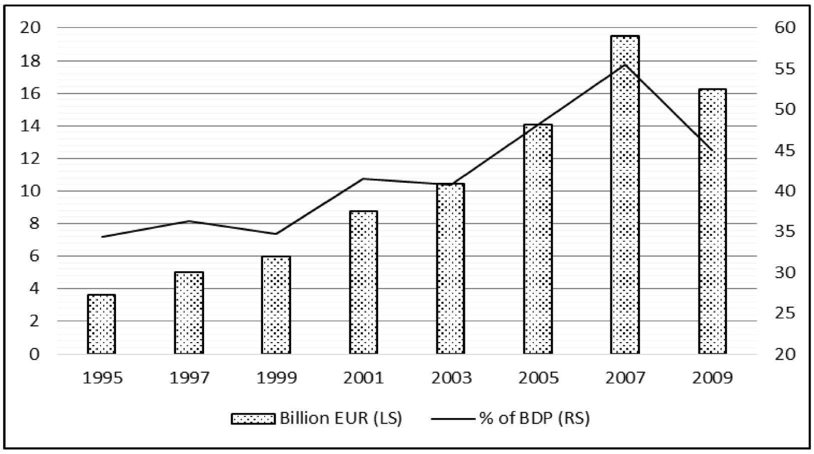
The established competitive solidarity system was particularly favourable to large and capital-intensive groups of exporters from the metal, machinery, chemical, and pharmaceutical sectors (such as Gorenje, Revoz, Krka, and Lek), which already supplied leading European economies in the socialist period. First, "the core workforce enjoyed strong job and payment protection which produced, in combination with the adopted pension system and restrictive unemployment protection […] a major obstacle to flows and fluctuations in the labour force" (Stanojević 2012, 867). The employers from these companies supported the job security of core workers "in order to motivate them to develop company-specific skills" (Crowley and Stanojević 2011, 276).

At the same time, the state provided various programs enabling firms to operate at lower costs, including the conversion of short-term debt into long-term liabilities, subsidised interest rates for loans, and partial financing of redundant labour. Particular attention was dedicated to export-oriented production, with co-financing schemes to promote new export projects and to reduce the costs of export-oriented production – in fact, export-oriented companies had priority in all measures (Tajnikar 2001, 333-34). Tajnikar (2001, 334) estimates that the annual state help to the economy represented on average of almost 5% of GDP between 1992 and 1997.

However, Slovenia also inherited large segments of labour-intensive companies from light industry, such as textiles, footwear, and wood, which used to be almost exclusively oriented to the Yugoslav market and whose workers formed the core of the labour revolt in the early 1990s (Crowley and Stanojević 2011). To reduce pressures on less competitive firms, the state established a complete set of measures in 1993. These measures were mostly of a defensive character because they resulted from popular pressures and sought to prevent social and/or political unrest (cf. Landesmann and Abel 1995, 139). The state directly intervened in the companies owned by Slovenia and those owned by the Development Fund, which was transformed into a public limited company by the 1992 privatisation legislation. About one hundred of the most troubled companies were placed under the direct control of the DF, which covered losses, invested equity, took over the costs of loan obligations and of laying off labour, wrote off taxes, and in most cases separated large corporations into smaller units.

Once the restructuring process was considered finished, the enterprises were privatised (Bartlett 2000, 16-17, Tajnikar 2001, 333).

Figure 14 **Exports, current prices, billion EUR and % of GDP, 1995–2009**



Source: SI-STAT.

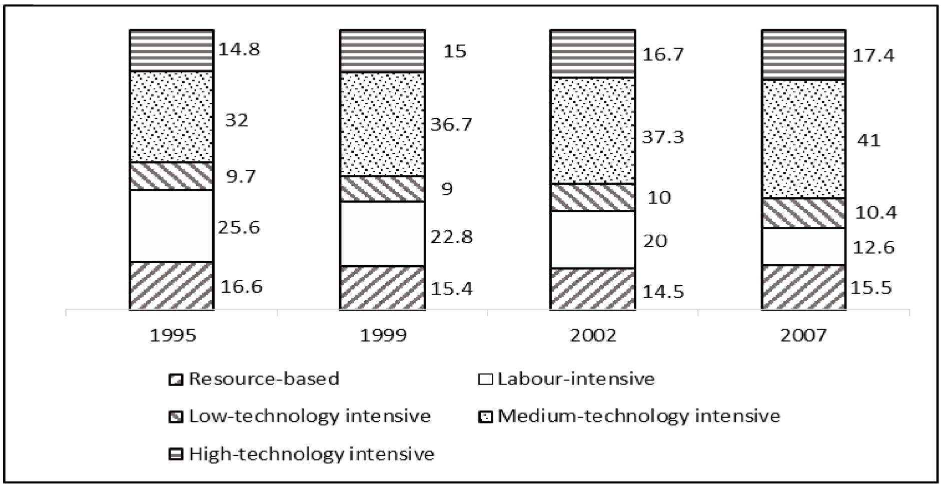
State subsidies, guarantees and deferred taxes together with systemic prevention of *tolar* appreciation were the main regulatory factors that secured exports of less competitive firms during the 1990s (Rojec et al. 2004, 477, Becker 2016, 44). At the same time, international arrangements should also be taken into account, especially the EAA. According to Podkaminer (2013, 23), the agreements signed by the authorities from the CEECs and the EU in the mid-1990s "were clearly beneficial to CEEC exporters of many manufactured goods": indeed, against the background of favourable international conditions, Slovenian exports of goods jumped in 1997 and 1998, increasing by 14.6% and almost 11% (SI-STAT). As can be observed from Figure 14, Slovenian producers increased their sales abroad without an interruption from the mid-1990s up to the late 2000s: from less than EUR 4 billion in 1995, exports exceeded EUR 19.5 billion in 2007. Likewise, their share of the GDP increased from 34% to 55.5% during this period.

Figure 14 also provides a hint at the potential risks associated with such a profound development; namely, a dependency-external demand. This demand was the driving force of both rapidly rising exports after 2000 and a sharp contraction in 2009, when exports decreased by almost a fifth that year. Such a rapid fall was strongly associated with the fact that increasing export shares were accompanied by a narrowing of the export profile. Therefore, the changing export profile of Slovenian production is studied in the following section.

5.2.1.3. State industrial "de-building" and narrowing of the export profile

Trade specialisation in favour of complex manufacturing was one of the main characteristics of increasing export dependency in the CEECs (Myant and Drahokoupil 2011, 70-73). Slovenia did not escape this pattern; however, the formation of a relatively strong labour movement from labour-intensive firms contributed to the fact that economic restructuring, driven by the demand from the leading EU markets, was much slower in Slovenia than elsewhere. The changing structure of Slovenian trade, shown in Figure 15, is indicative of the changing class-power balance as well as the extent of remaking the initial neo-corporatist arrangements in line with the EU/EMU regime.

Figure 15 **Structure of merchandise exports by factor intensity in Slovenia, 1995–2007, EUR billion**



Sources: 1995–1999 (IMAD 2004, 109), 2000–2007 (IMAD 2016, 113).

As can be observed, the share of labour-intensive products in merchandise exports decreased relatively slowly until the end of the 1990s, and during the 2000s it halved. The changing prospects of those firms were mostly related to changing state aid. After labour unrest subsided in the second half of the 1990s and the accession process formally began, state aid decreased rapidly (Tajnikar 2001, 334, Murn 2007, 9) and as early as in 2000 was brought close to the EU average and continued to fall (IMAD 2002, 41).[29] By making fiscal conservatism and liberalisation of the economy key elements of the economic *acquis*, the

[29] These figures should be read with caution. According to Murn (2007, 5) It is very difficult to measure the overall value of state aid to the economy; before starting the negotiations, Slovenia did not carry out any systemic review of the aid distributed to the economy; afterwards, the very opaque system of EU state aid rules makes any transparent and clear oversight over redistributed public money practically impossible. The aim here is to highlight the decreasing trend in state aid as practiced during the 1990s.

EU/EMU accession criteria effectively prohibited any deficit spending industrial policy (cf. Ivanova 2007, 361).

After the reduction in state aid and the privatisation of firms that were partly sheltered from direct competition by being placed under the supervision of the DF, any labour-intensive firms went bankrupt (Murn 2007, 13). As Myant and Drahokoupil (2011, 221) claim, without genuine state-led restructuring g, less advanced firms from the past remained concentrated on means for survival, making their prospects precarious and dependent on state input. Note that the firms privatised in the early 2000s were also faced with the specific shock of heightened market pressures. As was seen in the previous chapter, in view of EU/EMU accession, the Slovenian authorities accelerated the pace of liberalisation and subordinated monetary policy to inflation targeting.

The decreasing share of labour-intensive products in the Slovenian export profile was not, however, offset by expanding exports from high value-added industry. As seen in Figure 15, such exports only slightly increased their share among total exports from the mid-1990s onward. Instead, the already dominant role of mid-tech products strengthened further, and by the late 2000s they represented over two-fifths of all exports.

Bohle and Greskovits (2012, 47) define such a structure of industrial upgrading as a semi-core profile. Limited upgrading was directly linked to the fact that, like their counterparts in the CEECs, Slovenia also considered foreign capital to be the main engine of industrial restructuring. As explained by Bohle and Greskovits (2012, 47), "the actual productive roles of the complex manufacturing industries […] still exhibit overall lower levels of autonomy, sophistication, and skills than the activities concentrated in the Western […] industries [and where the] achieved competitiveness in complex sectors has been inextricably linked to foreign input".

Therefore, after the late 1980s the increasing Slovenian dependency on exports and the transformation of domestic producers into reliable suppliers of products from complex manufacturing and other machinery was related to the peculiar interplay of the class-power balance at home, dominant international regulatory regimes that exhibited a strong anti-Keynesian bias, and the decision by the Slovenian authorities to use these regimes as instruments in domestic struggles in order to weaken the bargaining position of labour, especially that which was the most militant in the early 1990s. A very similar interplay of domestic class-power struggles and the international regimes also explains the selective increase in the dependency of the Slovenian economy on international flows of productive capital (FDI).

5.2.2. From an FDI frontrunner to an FDI laggard

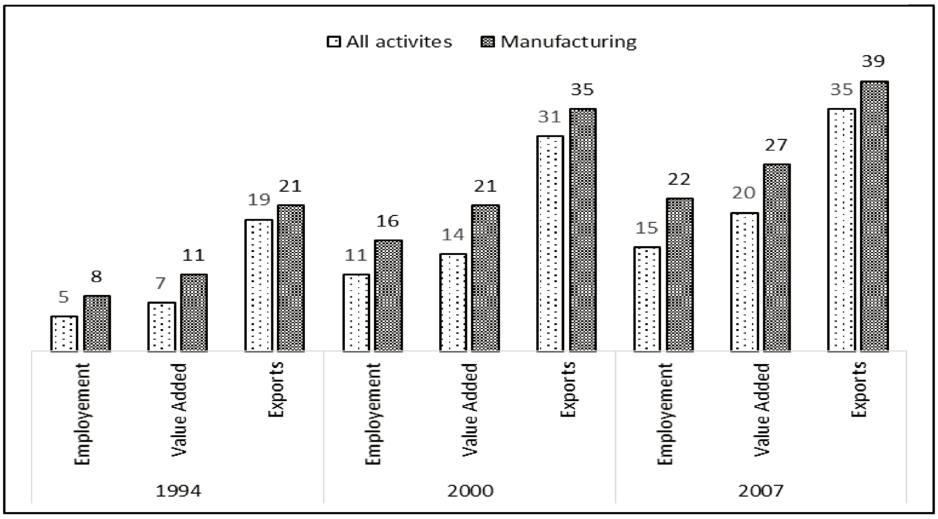
Given the overwhelming belief of politicians, academics, and international organisations in inward FDI (IFDI) as a panacea for post-socialist economic restructuring, it is far from surprising, as Drahokoupil (2009, 188) points out, that by the early 2000s most of the CEECs became the leading spots of capital investment, originating from the leading European countries. “What is striking […] is that internationalisation came quite late” (Drahokoupil 2009, 188); indeed, it was not before the first half of the 2000s that foreign capital took over command of the manufacturing, banking, and retail sectors (Myant and Drahokoupil 2011, 278-80). For Slovenia, however, the opposite is true instead. Slovenia ended up as the least FDI-dependent in the region even though the country took the lead in opening the economy to foreign investment: it was only after the mid-1990s that Slovenia started to lag behind its regional peers in terms of IFDI per capita and relative to GDP (Woodward 1995b, 357, see also the data provided by Myant and Drahokoupil 2011, 279, 343). Again, an interplay of domestic class-power structures and relations, dominant international regimes, and the making and remaking of domestic neo-corporatist arrangements in line with the EU/EMU regulations should be taken into account. As shown below, the depth and reach of integration in FDI was interdependent on the capacities of various factions of domestic labour, capital, and the state to forge cross-class coalitions as well as the capacities of the domestic dominant class to legitimise its power position at home.

5.2.2.1. *Restructuring manufacturing with foreign capital*

Although they were numerically inferior, foreign investment enterprises (FIEs) represented important segments of the Slovenian economy from the early 1990s onward, especially in manufacturing (Simoneti, Rojec, and Gregorič 2004, 235). This is confirmed by Figure 16, showing those firms’ contribution to employment, value added and exports in the overall economy, and the manufacturing sector.

Like elsewhere in the region, the increasing dependency on foreign productive capital in Slovenia took place through two waves of FDI inflows. Well-established economic links and a cheap but relatively qualified labour force made some leading Slovenian companies in the auto and machinery sector, chemicals, pulp and paper production, and agriculture (tobacco)[30] particularly attractive for foreign investors from Austria, Germany, France, and Italy (cf. Bank of Slovenia 2000, 17). For Ivanova (2007, 365), "market capture as the primary motive for FDI in East Central Europe in the early 1990s was replaced by the attraction of the low labour costs, which made cost-cutting the leading reason for FDI by the late 1990s".

Figure 16 **Enterprises with direct investment in the total corporate sector and manufacturing, selected years**



Sources: 1994 (Bank of Slovenia 2000, 67); 2000 (Bank of Slovenia 2005, 80); 2007 (Bank of Slovenia 2008c, 82).

Against the background of the anti-Keynesian bias of the radical economic restructuring from the early 1990s, foreign capital provided additional resources and secured foreign demand for Slovenian products (Kraft, Cvikl, and Vodopivec 1996, 212, cf. Myant and Drahokoupil 2011, 304). As can be seen from Figure 16, FIEs realised about a fifth of all exports in the early 1990s although they secured less than 10% in total employment.

[30] "Among the most significant foreign investments were several in the auto industry, involving TAM in Maribor, Cimor in Koper, and the REVOZ in Novo Mesto, with Fiat, Citroen and Renault respectively; auto equipment makers TAM motor and Saturnus with German partners Kloeckner, Humboldt Deutz, and Reinhold Poerch; Tobačna Ljubljana, a tobacco producer, 76 percent owned by Reemstsma of Germany and Seita of France; Belinka Perkemija, Ljubljana, in partnership with Laporte Chemicals and Solvay ET; Black and Decker Grosuplje, 60 owned by US toolmaker Black and Decker; and papermakers, papirnica Količevo with Saffa (Italy), Papirnica Vevče with Brigl and Bergmeister (Austria), and Goričane with Maschinenfabrik (Austria)" (Kraft, Cvikl, and Vodopivec 1996, 212).

The second wave of FDI inflows took place at the beginning of 2000, encouraged by clearer prospects of EU accession (Silva-Jauregui 2004, 123) and accelerated liberalisation of the Slovenian economy. In fact, for Bandelj (2003), the late 1990s brought a shift at the state level in favour of increased FDI promotion. In 1997, the amendments to the Companies Act granted domestic and foreign investors equal rights to enter and exit business, and ensured equal investment protection. The legislative change was accompanied by tax system reform, which set the company income tax at 25% and made Slovenia one of the most tax-favourable countries in Europe at that time. In 1999, the Foreign Exchange Act liberalised the foreign exchange rate, allowing free transfer of profits and the repatriation of capital (Bandelj 2003, 379-80).

Together with the launching of privatisation, partially or complete, of firms from the social utilities sector, as well as the foreign acquisition of some of the remaining leading companies in Slovenian industry, such as the pharmaceutical firm Lek by Swiss Novartis[31] (Bank of Slovenia 2005, 18), the accelerated remaking of the Slovenian arrangements in line with the EU/EMU regime contributed to a significant increase in dependency on IFDI: between 1994 and 1998, IFDI stock increased by about EUR 1.3 billion, to reach 2.4 billion at the end of the 1990s; after 2000, IFDI took off and stock rose from 3.9 billion to 9.7 billion between 2002 and 2007 (see Table 8).

Bohle and Greskovits (2012, 44-47) have highlighted the selective pattern of the dependent integration of Slovenian industry on international flows of FDI: FDI was strongly concentrated in complex manufacturing and in the leading export-oriented firms, whereas technologically less intensive firms, which received the bulk of FDI in the Baltic region, remained less dependent on foreign capital input. In addition to the overall support of the macro-arrangements, whose design echoed the interest of dominant exporters, class-power relations and structures at the firm level also played a role in such an outcome. A comparatively higher overall wage level, state aid, and stronger trade unions at the firm level prevented the arrival of transnational light industry investors known for their volatility and low-wage-seeking strategies (Stanojević 2004b, 118, cf. Drahokoupil 2009, 100, Bohle and Greskovits 2012, 203). In addition, workers held important ownership shares in labour-

[31] Other foreign acquisition of Slovenian non-financial corporations in the early 2000s involved the takeover of Simobil by Austria's Mobilikom (Simoneti, Rojec, and Gregorič 2004, 243). For the acquisition of banks, see the following section.

intensive and the most conflict-ridden companies, whereas in the technologically most advanced and internationalised enterprises managers became the dominant owners (Simoneti, Rojec, and Gregorič 2004, 231), but they nevertheless cooperated with workers in the form of micro-corporatist competitive solidarity (Crowley and Stanojević 2011).

Table 8 **Total FDI stock and sectorial redistribution, selected years, EUR billion and %**

	1994	1998	2002	2007
Manufacturing	45.3	53.7	44.8	27.1
Services	54.7	46.3	55.2	72.9
Total FDI stock (EUR billion)	1.3	2.4	3.9	9.7

Sources: 1994 (Bank of Slovenia 2000)1998 (Bank of Slovenia 2008c, 20); 2002, 2007 (Bank of Slovenia 2010b, 21).

As can be observed from Table 8, the quantitative expansion of FDI after 2000 went hand in hand with sectorial diversification as foreign investment progressively spread from manufacturing to service sectors: in the second half of the 2000s, the service sector accumulated almost three-fourths of all FDI stock, mostly as a result of expanding foreign banks and retail groups that entered the Slovenian markets after the late 1990s liberalisation. Nevertheless, as already mentioned, those firms remained smaller players compared to home-grown firms. Therefore, it is worth scrutinising the factors behind Slovenian "financial" and "retailing" nationalism.

5.2.2.2. State-led rehabilitation and the domestic banking sector

The method of bank restructuring was one of the key reasons for the delayed privatisation of the domestic banking sector and hence a relatively smaller role of foreign banks on the Slovenian markets. In 1993, the Slovenian authorities launched "a venture of unprecedented scope" (Štiblar and Voljč 2004, 265) and decided to restructure more than half of the entire Slovenian commercial banking sector without major involvement of foreign actors.[32]

In contrast to other socialist countries, which implemented a monobank system under state ownership (Myant and Drahokoupil 2011, 261), Yugoslav commercial and central banks acted as separate units from the 1960s onward. Because banks were owned and managed by

[32] Although the government took the World Bank's enterprise and financial sector adjustment loan in 1993, pressures on bank restructuring from international financial organisations were limited and "strict external conditionalities did not play an important role in the restructuring of the banking sector or later in bank privatisation" (Štiblar and Voljč 2004, 266).

enterprises, they were supposed to be privatised automatically with "their" firms in the early 1990s. However, the radical macroeconomic surgery under the WCA brought the banking sector to the verge of bankruptcy. Therefore, in 1993 and 1994 three major banks (Ljubljanska Banka, Kreditna Bank Maribor, and Komercialna Banka Nova Gorica, later acquired by Kreditna Banka Maribor) entered the process of rehabilitation under the supervision of the state Bank Rehabilitation Agency (Štiblar and Voljč 2004, 272, OECD 1997, 74).

The rehabilitation followed examples from the leading economies, combining government resources and intervention with a decentralised approach, whereby a proportion of bad assets were restructured by the banks themselves. At the same time, two "new" banks were established in 1994, Nova Ljubljanska Banka (NLB) and Nova Kreditna Banka Maribor (NKBM), which at the end of the rehabilitation process represented about 40% of the entire banking sector (Taškar Beloglavec and Taškar Beloglavec 2014b, 50-51).

The strategy of the Slovenian leadership was to first consolidate the banking sector "and to privatise gradually later, when domestic capital would be sufficient to keep at least some of the larger banks majority owned by domestic institutions" (Štiblar and Voljč 2004, 272). Indeed, during the 1990s various measures were introduced to limit foreign banks' entry and competition. Although Slovenia was among the first of the CEECs to allow foreign participation in the domestic banking sector, foreigners could not obtain greater ownership shares from domestic actors (Lindstrom and Piroska 2007, 123). The BS pursued a relatively restrictive policy of full banking licencing and required domestic and foreign banks to meet comparatively higher capital requirements[33] (Štiblar 1994, 42). Whereas banking sectors in many other post-socialist countries entered a new crisis by the end of the 1990s and were taken over by foreign MNCs, Slovenian in cooperation with the central banking authority provided the necessary resources and protection, allowing the banks to recover from the macroeconomic state-led surgery in line with the WCA (cf. Štiblar and Voljč 2004, 268, Myant and Drahokoupil 2011, 266-75).

Once the rehabilitation was completed, the government launched the privatisation process of NLB and NKBM in 1999 (Štiblar and Voljč 2004, 267). This coincided with the acceleration

[33] In 1997, banks were required to have a minimum of around US$ 32 million in capital for a full licence, which was well above the requirement set under EU Directive no. 89/646/EC. The requirements were lowered only in 1999 (OECD 1997, 135).

of EU/EMU accession, demanding the revision of the banking and FDI legislation to comply with the EU Single Market rules. The Banking Law, implemented in 1999, abolished the previous restrictions over foreign participation in the ownership structure and allowed foreign banks to open branches in Slovenia (Lindstrom and Piroska 2007, 122, for a detailed account on the "harmonisation" of the financial sector with the EU legislation see IMAD 2002, 30-31).

As a consequence, 2001 become known as "*the* year of privatisation and mergers in the banking sector" (Jurko 2001, emphasis in original).[34] In fact, the privatisation process in the early 2000s was indicative of a specific class trade-off proper to the European integration project. In exchange for systemic support of the EU/EMU regime in domestic struggles, the Slovenian ruling class preferred to give away some of its privileges, including the economic and political tools of its local dominance. The rehabilitation of banks burdened Slovenian public finances: in 2001, the public deficit peaked at almost 4% of GDP and public debt at over 26% of GDP (SI-STAT). "[E]nthusiastic supporters of European integration and […] eager to dutifully fulfil the EU's formal and informal requirements" (Lindstrom and Piroska 2007, 124), Prime Minister Drnovšek (LDS) and Finance Minister Rop proposed selling important state shares for foreign capital in order to reduce the outstanding debt (Štiblar and Voljč 2004, 267).

The government plan spurred considerable domestic resistance, led by a joint media campaign, public protest, and the political opposition.[35] Lindstrom and Piroska (2007, 125-56) report that in late 2001 a vast majority of respondents in a public opinion poll were also in favour of keeping both banks under state control. The government halted the privatisation of NKBM in 2002 and allowed Belgium's KBC to acquire a smaller proportion of NLB's shares.[36] The privatisation of NKBM was relaunched in 2006 following the method of the

[34] Velenjska Banka, Dolenjska Banka, and Pomurska Banka were merged with NLB. NLB and NKBM entered the process of privatisation, whereas the already privatised Slovenska Kreditna Banka and Banka Koper were taken over by France's Société Génerale and Italy's San Paolo IMI, respectively. Foreign acquisition also took place in some smaller Slovenian banks (IMAD 2002, 42).

[35] Whereas the leading party in the government, the LDS, supported bank privatisation to reduce state outstanding debt and to comply with EU requirements, other coalition parties, the right-aligned Slovenian People's Party (SPP) and the United List of Social Democrats, the former league of Communists, with close ties with the mayor of Maribor, strongly objected to the reduction of state shares. At the end of negotiations, the SPP accepted the privatisation of NKBM but refused the privatisation of NLB. (Lindstrom and Piroska 2007, 124)

[36] The government made a special agreement with Belgium's KBC with respect to selling NLB's shares in two steps: KBC was first allowed to buy "only" 34% of shares but acquired the right to appoint the same number of supervisory board members as the state and para-state funds. In 2006, the remaining shares of NLB would be sold. However, the arrival of the new government blocked this plan. The Janša administration retreated from the deal with the KBC and sought to merge NLB with the largest domestic insurance company (Lindstrom and Piroska 2007, 127, 32).

public offering of shares (Lindstrom and Piroska 2007, 123-27), whereby the shares of the state and the para-state funds were reduced to below 52%.

Therefore, by 2007, the banking sector in Slovenia remained mostly domestically controlled: the central state held about 15% of capital equity in the banking sector, other domestic actors more than 47%, and foreigners possessed less than 38% (Bank of Slovenia 2009, 63). As was seen, in a period of accelerated economic liberalisation and the "euroisation" of Slovenian regulations, it was mostly the capacities of domestic actors to forge cross-class coalitions, as well as the abilities of the ruling elites to legitimate their power position, that secured the predominantly domestic ownership of banks.

5.2.2.3. Selective "practical" protectionism and the domestic retail sector

According to Myant and Drahokoupil (2011, 228), "[r]etailing in CEECs followed a pattern of repeated transition, first including some informal trade, then to more stable formalised domestic firms, and finally to large-scale foreign-owned supermarkets, which easily triumphed over domestically owned rivals". Slovenia, however, deviates from this pattern: despite an increasing presence of foreign international retailers during the 2000s, the home-grown Mercator group not only dominated on the domestic market (with a 46% market share in 2006) and became the leading employer in the country, but also established itself as a powerful player in other ex-Yugoslav countries (Mekina 2014b).

Specific legacies were important. The Slovenian retail sector inherited a strong network linking prevailing *private* agricultural households with smaller commercial, industrial, agricultural, catering, and socially-owned service companies (Bojnec 2005, 153). Starting in the early 1990s, the restructuring of Mercator was based on limited involvement of external actors. In the literature, the political transfer of retail (and other small-scale services) into private hands has been mostly described as "small privatisation", referring to the relatively smaller size of firms. Formed as a legal entity in 1990, the privatisation of Mercator started in 1993, following the major revolt by workers and farmers described in the first section. Whereas the firm initially formed a joint venture with Interspar, entering the Slovenian market in 1991, privatisation brought Mercator back under full domestic control.[37] During the

[37] Far from resembling any "small venture", according to the firm's website the privatisation of Mercator was the largest privatisation project in Central Europe in terms of volume and value of capital at that time, resulting in total domestic ownership with predominant national funds and 63,000 minority shareholders. See http://www.mercatorgroup.si/en/about-the-group/history/.

1990s, Mercator's managers imitated their counterparts from leading capitalist economies oriented toward economies of scale and firms' enhanced market position through intense acquisition and mergers with smaller traders.

The agro-production and domestic retail traders gained important support from what Podkaminer (2013, 21) has defined as practical protectionism; that is the "rediscover[y of] the advantages of controlling imports by tariff and non-tariff barriers" (Podkaminer 2013, 21) by the authorities in many CEECs in the mid-1990s. Although the period of this practical protectionism was relatively short due to single-market restrictions,[38] in Slovenia it "bought" necessary time for domestic agro-production and retailers to adapt to new market conditions. For Kračun (2006, 69), the farmers' pressures from the early 1990s were decisive for the slow pace of liberalisation of sectors linked to agriculture. In fact, the agriculture sector, especially processed goods, became the one most protected from cheaper imports (Majcen and Kamiński 2004, 139). The restrictive FDI policy additionally protected domestic agro-production from foreign competition during the 1990s.

Note, however, that Slovenian protectionism was not only practical, it was selective as well. In contrast to agriculture, in which the applied tariff rates more than doubled between 1994 and 2001, "producers in the manufacturing, energy, and mining sectors had already experienced the main shock of foreign trade liberalisation […] by 1993" (Majcen and Kamiński 2004, 139-140). Therefore, the rise of a powerful retailer linking domestic agro-producers and commercial services was also indicative of domestic class-power relations and the attempts by the Slovenian ruling class to weaken labour, and especially industrial labour. Indeed, the consolidation of the Mercator Group was without doubt eased by the fact that the managers of trade firms gained privileged access to cheap labour. This access was created first by collective agreements in the trade sector, which set no wage standards – meaning that most (female) employees were receiving minimal salaries – and was later expanded by labour market reform that liberalised temporary employment (see also Section 5.3.2.1) (Kaluža 2008, 138-39).[39]

[38] In Slovenia, the effective taxes (excluding TVA) and customs duties charged on imports fell sharply by the end of the 1990s, from 6.8% of all imports in 1995 to 2.27% in 2000 before practically disappearing upon the country's accession to the EU, going down to 0.32% in 2005 (Podkaminer 2013, 24).

[39] Between the late 1990s and the mid-2000s, the sales areas doubled and the working time extended on average by 30%, employment expanded by a mere 11%, most of it being on a fixed-term basis (Kaluža 2008, 138-39). Other markets of the former Yugoslavia also played an important role in the consolidation of the Mercator Group. Mercator took advantage of inherited economic links to access to cheaper resources (labour, primary

Therefore, whereas the socioeconomic arrangements that were established in the 1990s made Slovenia one of the most attractive spots in the region for the type of foreign capital that relies on a well-established and coordinated business framework (e.g., export-oriented capital-intensive complex manufacturing (Bohle and Greskovits 2012, 46), it also mainly protected inward-oriented firms and activities from international competition. State-led restructuring and selective practical protectionism provided domestic traders and banks with the necessary time and financial resources to adapt to market conditions, to consolidate their market shares at home, and to face competition from foreign MNCs after the authorities decided to accelerate the liberalisation of the economy. Such an outcome was not so much related to the elites' project of "making national capitalism"; instead, it was driven by the changing class-power balance, cross-class coalitions, and the changing hierarchy of policy norms and principles within the Slovenian state apparatuses. In fact, it was during the 2000s that domestic banks and traders also became important regional players, especially in other countries of the former Yugoslavia.

5.2.3. EMU entry and the return to foreign loan dependency

During the years preceding the crisis after 2007–2008, Slovenia returned to a form of external dependency that paced its trajectory after the 1970s. For several authors, the increase in dependency on monetary capital inflows was associated with the swing of the political pendulum in the mid-2000s in favour of a centre-right government. For Guardiancich (2016, 218), the Janša administration used "distorted" and "rent-seeking" lending and management practices, nourished by the so-called gradualist transformation strategy, in order to encourage a new wave of privatisation and reconstruct elite networks. The analysis here, however, argues that the remaking of the Slovenian state apparatuses in view of the EU/EMU integration was essential because it helped create structural conditions for the increase in dependency via the financial channel. Domestic factors were important, but primarily inasmuch as they explain why the bounding liquidity boosted especially inward-oriented sectors, whereas household debt remained limited.

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products and agricultural products (Jaklič and Svetličič 2005, 77), and to secure (inter-enterprise) trade (cf. Damijan 2004, 345). Indeed, since the mid-1990s the expansion of wholesale and retailing activities abroad, in terms of outward FDI, has been among the most significant (Bank of Slovenia 2010b, 79).

5.2.3.1. Euro-led restructuring of the financing sector

European integration contributed strongly to the rise of financial capital and markets in Slovenia during the 2000s. Four changes in financial and monetary regulations, introduced for the integration in the EU and the adoption of the euro, were particularly important: the convergence of interest rates, liberalisation of financial markets, adoption of new banking standards, and liberalisation of FDI policy.

As part of a transfer of monetary policy at the EU level, interest rates had to be reduced in line with European rates. Starting in the early 2000s, the real interest rates on loans to corporations fell rapidly and by mid-2005 reached their lowest value, between 3.5% and 3.9% for loans up to EUR 1 million and over EUR 1 million, respectively. Low(er) interest rates contributed to the creation of positive business expectations and fuelled demand for loans. In addition, by liberalising internal and external financial markets in order to be able to enter the ERMII regime, Slovenia and the central banking authority lost the remaining instruments for controlling the expansion of loans and their allocations (cf. Stockhammer and Köhler 2015, 38). For these reasons, Kržan (2014, 328) claims that the loss of monetary policy was a decisive factor behind debt accumulation.

A second important regulatory feature enhancing the liquidity provisions for banks was related to new capital requirements. In 2005 the BS introduced the International Financial Reporting Standards (IFRS), adopted by the EU in 2002 (Breznik and Furlan 2015, 183), which were less stringent compared to the previous standards. Consequently, the capacity of Slovenian banks to borrow on international markets improved significantly: following the introduction of new standards, provisions fell by 24%, the capital of banks grew by 15%, and banks' capital adequacy improved by 1.6 percentage points (Bank of Slovenia 2015, 18).[40] As shown in the next section, the domestic Slovenian banks indeed obtained their first major syndicated loan on the wholesale markets in the mid-2000s.

Finally, in 2000 the competition among the banking actors operating in the Slovenian economy intensified significantly. The 1999 FDI liberalisation, the abolition of capital controls, and privatisation heated up competition among national banks and undermined the previous quasi-monopolistic position of the banks under mostly domestic ownership (state or

[40] In 2006, to counteract pro-cyclical effects of the IFRS, the BS demanded an additional capital adequacy requirement of about 0.8 percentage points. However, according to the OECD (2009, 24) "its effectiveness in restraining credit appears to have been limited, maybe because of its small size".

private). At the end of the 1990s, the market share of foreign-owned banks, measured as the proportion of total assets, was still below 5%; by 2002, it exceeded 23%, and six years later foreign banks held almost 30% of total banking assets (Reiffeisen Research 2004, 24, 2008, 35). To gain clients and expand profit margins, the banks further lowered effective interest rates and the corporate lending standard (i.e., reduced the amount of required collateral) and thus made cheap money even cheaper in the Slovenian context.

By highlighting the role of the changing macroeconomic framework, the analysis here does not suggest that the government macroeconomic policies and/or leveraged management buy-outs (LMBOs) did not stimulate loan growth. The contribution of LMBOs to the overall debt was in fact very low (Kržan 2014, 331-32). In a similar vein, by reducing corporate taxes (2006), repaying government debt to domestic investors (2007), and issuing warranties for external borrowing for the state-owned freeway construction company, the Janša administration indeed "made money cheaper and investments (potentially) more gainful" (Kržan 2014, 332) but it did not create them. Instead, the "trap of cheap money" (Kržan 2014, 328) was politically constituted by a progressive euro-led restructuring of the domestic financial and banking sector.

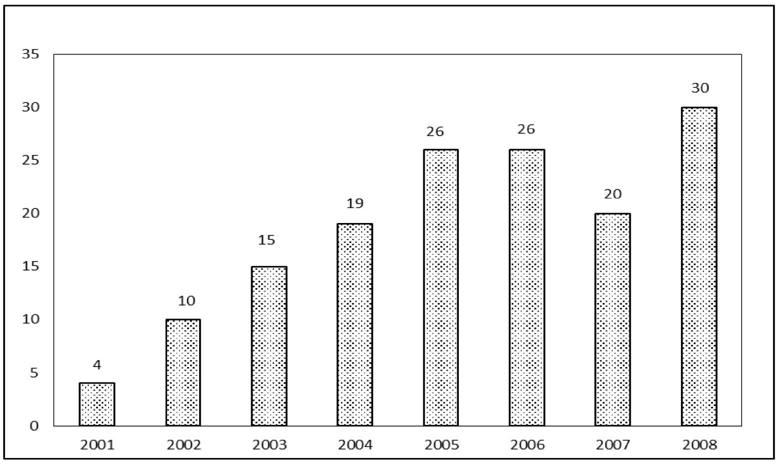
5.2.3.2. Cross-border borrowing by domestic banks in the quest for profits

Coinciding with cheap liquidity on the international markets, heightened market pressures stimulated domestic and foreign (profit-oriented) banks to engage in fierce competition over market shares, clients, and profits.

Starting in the early 2000s, the net financing of banks and other segments of the Slovenian financial sector abroad increased constantly (see Figure 17). During the first half of the decade, borrowing from the rest of the world increased more than fivefold and stood at 26% of GDP in 2005. The ratio fluctuated strongly in the second half mostly as a result of rapidly rising and then falling GDP (see below). In fact, between 2004 and 2008, domestic banks increased their liabilities to foreign banks from about EUR 4 billion to more than EUR 16 billion (Bank of Slovenia 2015, 13).

Foreign banks operating in Slovenia were the first to shift in favour of external sources of financing. The overlapping of the abolition of capital controls and the launching of the euro allowed foreign subsidiaries access to a cheaper euro via so-called internal capital markets (obtaining funds from a parent bank) (Bank of Slovenia 2015, 13-14). In fact, even in the second half of the 2000s, the ownership structure helped foreign-owned banks obtain external financing at a disproportionately higher level than domestic, state, or private financing (Košak 2011, 24, Bank of Slovenia 2015, 16).

Figure 17 **Net financial liabilities of the financial sector vis-à-vis the rest of the world, % of GDP**



Source: Bank of Slovenia (2015, 13-14).

Beginning in the early 2000s, domestic banks also started reducing the proportion of deposits from non-financial companies in favour of external sources of financing, although they could borrow from abroad on a much smaller scale (Bank of Slovenia 2004, 43)[41] – not being part of a larger MNC, they could only borrow on the wholesale markets, where the terms of lending were dependent on banks' rating (Košak 2011, 24). However, entry into the EU, as well as the change mentioned above in banking standards, increased the trustworthiness of domestic banks in the eyes of international investors (cf. Myant and Drahokoupil 2012, 11). In 2005, the "rehabilitated" NLB raised "the largest international loan any Slovenian bank has ever taken out and one of the largest raised by a financial institution in the markets of CEE" (NLB Group 2005, 40) at a value of EUR 0.54 billion. Only two years later, the bank succeeded in setting another precedent, raising a loan of EUR 0.85 billion, "which was […] the largest ever approved for a financial institution in the markets of CEE" (NLB Group 2007, 23).

Foreign liquidity was mostly used to stimulate further borrowing among domestic actors: between 1995 and 2002, domestic loans to the private sector by banks increased from less

[41] The increase in liabilities to foreign banks rose strongly in 2003 in comparison to previous years: in banks under foreign ownership, they contributed 72% of the growth in total assets, compared to just 34% at domestic banks (Bank of Slovenia 2004, 43).

than 25% to 38% of GDP, respectively; by 2008, however, it exploded to 76% of GDP (WDI). Initially, most loans were denominated in foreign currency, mostly in euros. In the first half of the 2000s, this informal euroisation of the Slovenian economy, which was another sign of its dependent integration (Becker et al. 2010, 230), was driven by higher costs of borrowing in domestic currency due to the differences in interest rates. After 2004 the mostly relatively stable exchange rate pursued under the ERMII and growing expectation of the rapid introduction of the euro in 2007 stimulated firms to continue borrowing in foreign currency (Bank of Slovenia 2006, 23-24). After full entry into the Eurozone in January 2007, most loans were denominated in domestic currency.

5.2.3.3. The debt-fuelled expansion of the corporate sector

As Table 9 shows, indebtedness was mostly strongly concentrated in the corporate sector. With debt standing at 30% of GDP, households succeeded in maintaining a relatively favourable financial position (Ponikvar, Tajnikar, and Došenović Bonča 2014, 162), even though between 2003 and 2007 the average annual growth of loans to households (22%) did not lag far behind the growth of loans to non-financial enterprises (25%) (Breznik and Furlan 2015, Reiffeisen Research 2008, 39). The Slovenian government, in contrast to other sectors, even reduced its relative financial obligations in the period observed.

Table 9 **Total financial liabilities, sectorial breakdown, % of GDP**

	Non-financial corporations	Households and NPISH	Monetary fin. institutions	General government
2001	129.6	20.1	73.3	33.0
2003	134.6	20.7	78.7	33.5
2005	148.4	23.5	95.0	33.4
2007	176.2	29.2	114.2	29.1
2008	160.3	30.0	117.1	28.3

Note: Monetary financial institutions without the central bank.
Source: Eurostat.

The increased reliance on foreign loans signalled a significant change in the financing strategy of Slovenian non-financial corporations. In 2000, firms financed almost 75% of their fixed capital investment with internal funds (retained profits, depreciation, and disinvestment), whereas loans secured only about a fifth of total funding (Domadenik and Prašnikar 2004, 258). By 2008, however, the proportion of equity in the financing structure of firms fell below 41% (Košak 2011, 25). Likewise, the corporate debt-to-equity ratio reached 103%, up from 88% in 2007 (Bank of Slovenia 2015, 19-20). Therefore, Slovenian firms became strongly exposed to changes in lending strategy. In fact, dependent reintegration of the Slovenian economy in the international flows of monetary capital reinforced the already established interdependency between domestic banking and the corporate sector. In 2007, banks controlled by domestic, private, or public actors held almost two-thirds of the total debt of Slovenian enterprises (63.6%); in contrast, foreign banks and other creditors held only 12.6% of the corporate debt (Bank of Slovenia 2008b, 27).

The extent of borrowing varied among sectors and the market-orientation of firms (Košak 2011, 26, Bank of Slovenia 2015, 19). Corporations oriented mainly toward the domestic market were indebted more than exporters.[42] By 2007, the share of debt represented almost 90% of total assets in firms involved in financial intermediation, 80% in construction, and 70% in wholesale and retail trade, followed by real estate firms with a debt-to-asset ratio slightly below 60%. In contrast, with a debt covering about 55% of assets, manufacturing was among the least indebted sectors of the Slovenian economy that year (IMAD 2011, 100). Many predominantly inward-oriented firms used cheap loans to extend their activities abroad. Outward FDI (OFDI) in financial intermediation and trade (retail and wholesale, except for motor vehicles) boomed: over one-fourth (27.2%) out of a total EUR 4.9 billion of OFDI in 2007 was realised by the financial intermediation sector, and over one-fifth (20.7%) by the trading sector.

Therefore, inasmuch as “[t]he arrival of foreign investors in the service sector and related competition for market shares provided an important stimulus for expansion abroad to the Slovenian home-grown traders and banks” (Jaklič and Svetličič 2005, 80), one should add that the imperialist aspirations of the Slovenian firms were enabled by the liberalisation of FDI and financial market regulations in line with the EMU regime. Myant and Drahokoupil (2012, 4) and Epstein (2013, 529) point out that in Slovenia domestic control of banks did not prove to be a factor of stability and macroeconomic prudence; however, they tend to underestimate the importance of the changing regulatory environment for the domestic financial sector and activities, and the capacities of domestic regulators to control the business strategies of banks. The next section precisely explains how the debt-fuelled overheating of the economy was directly linked to the transfer of control over the monetary regime and financial regulations to the EU level.

[42] Export-oriented firms are defined here as those “enterprises whose sales revenues on foreign markets (Sales revenues on foreign markets = Sales revenues on the EU market + Sales revenues on non-EU markets) exceed sales revenues on domestic markets” (IMAD 2011, 100).

Conclusion

In their analysis of the international restructuring of the Slovenian economy, Bohle and Greskovits (2012, 206) conclude that the country's "multifaceted strategy deserves attention even when compared with the restructuring experiences in Western small states. Notwithstanding the obvious disparities in wealth and economic power, Slovenia seems to have embarked on a similar pathway to that of Austria, for instance, some time earlier". Indeed, the strong impregnation of domestic complex manufacturing with foreign capital in combination with a mostly domestically owned banking sector and home-grown relatively successful MNCs confirms the distinctive path of Slovenia's economic internationalisation. However, comparing post-Yugoslav Slovenia to post-war Austria risks downplaying one of the crucial differences between these two countries and their economic recovery. It was not only wealth and economic power that distinguished Slovenia from post-war Austria; these two geographically neighbouring countries recovered from their crisis within radically different international regimes.

As was seen, in contrast to the Marshall Plan and Bretton Woods arrangements, which were conducive to state-led industrialisation, the coordinated rise of price and wage levels, and the mass production–mass consumption nexus, the EU/EMU regime never produced a plan that would allow post-socialist economies to recover on a self-supporting basis. This section argued that the prevailing international regimes were crucial for increasing the dependent integration of the Slovenian economy on the EU markets. Their role was crucial not because of the pressures from international actors on domestic authorities, but because those authorities never questioned the participation of Slovenia in the European integration. The EU/EMU state-building prevented the use of deficit-spending and strategic industrial policies, as well as of exchange rate mechanism (after 2004). At the same time it favoured the liberalization of trade and capital flows. The so-called convergence criteria acted rather as criteria for making the Slovenian economy more dependent on external capital and demand. Therefore, what might have appeared to be a neutral adaptation of institutional norms and regulations was nothing else than the creation of channels of greater economic dependency.

By pointing to the role of international regulatory regimes, this analysis confirms and complements already existing accounts pointing to the imperialist character of the EU's eastward enlargement agenda (Holman 2001, Drahokoupil 2009, Bohle 2006, Ivanova 2007).

The authors cited here arguably highlighted the role of European trade arrangements and the promotion of foreign (mostly) private capital in the economic restructuring of the CEECs. The study of the dependent economic internationalisation of the Slovenian economy has shown, however, that the role of EMU macroeconomic state-building in the asymmetrical expansion of financial capital and markets should also be taken into consideration.

Moreover, the analysis has also followed Drahokoupil (2009), claiming that the increasing dependency of post-socialist countries on foreign capital and demand was an internally driven process. Whereas the EU/EMU arrangements acted as a constraining variable on development in Slovenia, the concrete reshaping of domestic economic sectors under conditions of external dependency was mostly related to the interplay of socioeconomic structures, the capacities of social actors to forge and sustain cross-coalitions in a changing environment, changing compromises, and their institutionalisation. What is more, the EU/EMU regime not only acted as a constraining factor, but also as an enabling factor; the dependent internationalisation of the Slovenian economy also created new investment and profit opportunities for various *domestic* factions of economic and financial capital: starting in the early 1990s, the technologically advanced and most internationalised exporters could take advantage of favourable trade arrangements, whereas the "euroisation" of the Slovenian financial, monetary, and competition policy gave a new boost to domestic bankers, traders, and construction companies.

Seeking to understand the mechanisms of the dependent internationalisation of the Slovenian economy, this section left aside one central question related to economic and political dependency, i.e. the overall vulnerability of the economy and its exposure to the crisis. Nor was there much discussion on the contradictions that the Slovenian developmental trajectory produced and accumulated until the end of the 2000s, when the outbreak of the crisis revealed that the strategy chosen for economic recovery was based on unsustainable grounds. Therefore, the following section explores the form of development that defined the Slovenian trajectory after the early 1990s crisis.

5.3. Export-led and jobless industrialisation with dependent financialisation

The analysis here adopts a macroeconomic perspective in order to study the form of dependent development that was sustained by pro-European and dependent state-building and economic internationalisation. The main aim here is to scrutinise the sustainability of the chosen development path and to understand the factors that contributed to the relative viability of the Slovenian growth trajectory since the early 1990s. For Drahokoupil (2009) and Pula (2016), it was precisely the inability of post-socialist states to sustain a viable accumulation regime during the 1990s that proved significant for the development of a transnational "FDI-led capitalism" in the region (cf. Bohle and Greskovits 2012, 141-46). Most of CEECs entered – as part of various "Washington Consensus transition surprises" (Chavance 2011, 162-65, cf. Andreff 2007) – another crisis by the late 1990s. Slovenia, however, recorded unbroken economic growth until the late 2000s.

The main argument presented here is twofold: by slowing down the dismantling of income-redistributive welfare state arrangements, the imposition of relatively strong but also corporatist organised labour played a crucial role for a relatively successful economic recovery based on domestic demand, domestic sources of financing, and relatively autonomous control of production and macroeconomic decision-making. However, by basing their sources of legitimacy and reform inspiration on the EU/EMU regime, the pro-European corporatist coalition did not reduce, let alone resolve, the internal problems of the Slovenian economy; the underlying weaknesses of the chosen development path, characterised by a jobless and export-led industrialisation based on increasing intensification of work, was only exacerbated further when they became combined with dependent financialisation in the 2000s. Progressive liberalisation of the economy and the transfer of competition and monetary regimes to the EU level encouraged the shift in favour of foreign debt-fuelled accumulation that paved the way toward the crisis.

5.3.1. Consolidating the pro-export shift under a pro-European corporatist coalition

By the mid-1990s, the initial accumulation of capital stabilised and the main pillars of the regulatory regime were established under the pro-European corporatist coalition. By ensuring risk-sharing cooperation between the political and economic management of labour on the one hand, and the monetary and competition regimes on the other, the established neo-corporatist arrangements eased the recovery of domestic demand and secured an increase in dependency on the external demand for manufactured goods with predominantly domestic control of production and financial resources. The Slovenian pro-European corporatism was not, however, able to produce solution to the technological problems of the Slovenian economy. More concretely, intensification of work and foreign capital were among the main drivers of rising productivity.

5.3.1.1. Neo-corporatist welfare, household consumption, and macroeconomic stabilisation

Whereas many authors have noted that Slovenia was among the first countries to restore its 1990 GDP level, few of them have explored the sources of the country's economic growth. Taking GDP expenditure structure as the main proxy for an accumulation regime, two periods could be distinguished: from 1996 to 2002 the accumulation was predominantly based on domestic financial resources and demand, whereas after the early 2000s, as seen in the next section, the regime shifted toward a private investment-based and foreign-debt-led accumulation.

Table 10 **GDP growth and its components, 1996–2002 average**

	1996–2002
GDP growth	3.8
Final consumption expenditure	
… General government	0.6
… Household and NPISH	1.7
… Gross capital formation	1.6
External balance of goods and services	–0.1
… Exports of goods and services	3.3

Note: NPISH refers to non-profit institutions serving households.
Source: SI-STAT.

As Table 10 indicates, despite a significant export performance, the contribution of the external balance of goods and services to annual GDP growth, on average 3.8%, was negative. In a similar vein, the direct state contribution to economic growth was rather modest and indicative of the zeal of the Slovenian state representatives to comply with the Maastricht restrictions on fiscal spending. In fact, the state did enhance the economic recovery, but in an indirect way by launching the highway reconstruction project (Breznik 2005, 138-39). Since the mid-1990s, the state's orders contributed much to total investment (Oplotnik and Križanič 2004).

Household consumption was also important for the resumption of economic growth. The systemic prevention of currency appreciation, "grace" periods accorded by domestic banks to firms, subsidies, and loans granted via state aid programs prevented large(r)-scale closure of plants, dismissal of workers, and related weakening of the purchasing power of households. Although the 1998 labour market reform made a major leap forward in weakening the purchasing power of (precarious) workers by licencing temporary work agencies, it did not liberalise regular jobs (Kajzer 2007, 472). Consequently, most workers remained included in the core workforce with job and payment protection (cf. Stanojević 2012, 867).

Nonetheless, state involvement in the survival of (less competitive) firms and job protection could not *per se* underpin such household consumption; together with privatisation and the restitution of assets (land, real-estate, and equity), especially in the early 1990s, wages were the main mechanism of rising social inequalities.[43] The relatively well-preserved system of social protection acted as a "rock of stability in a tumultuous and tempestuous period of rapid economic, political, and social change" (Stanovnik 2004, 316). As has been shown, the ingredients of the Slovenian social protection system were shaped by the ongoing struggles between the formal social partners and were dependent on the capacities of labour to discipline the radical proposals of the Slovenian authorities. It is therefore worth describing this "rock of stability" in greater detail.

[43] The upper classes were able to increase their income on an ongoing basis during the 1990s thanks to managers' bonus payments and the political transfer of wealth – between 1993 and 1999, the share of wealth in the incomes of the richest 10% of households increased from 17.5% to 62.5% (Dragoš and Leskošek 2003, 38). For Kržan (2014, 327), denationalization "had considerable effects on the asset inequality of the population, but only marginally on the economy. Out of DM 2.8 bn of property privatised in this way, only about 13% was equity". At the same time, it is notable that the 1998 tax reform created a new source of rising income for the upper classes.

The first and major mechanism in stopping the rise of poverty and decrease in purchasing power was the introduction of a minimum wage for regular employment. The 1995 social pact fixed the minimum wage at 40% of the average wage and adjusted it to price inflation (Leskošek and Dragoš 2014, 41).

The 1999 pension reform made some major steps in shifting the hierarchy of the system's priorities from social to financial criteria: the introduction of the term of full pensionable age, seeking to encourage workers to prolong their period of working activity, a downward adjustment of pensions, and the abolition of the early retirement program introduced in 1992 were some of its main elements (Stanovnik 2004, 326). Nonetheless, because the reform did not undermine the favourable indexation of pensions against nominal wage growth and those granted to persons above 65 not entitled to pensions from the public-scheme, or so-called state pensions, "[t]he relative income position of pensioners and persons aged 60 and over has seen continuous improvement since the mid-1980s" (Stanovnik 2004, 320) until the early 2000s (Stanovnik 2004, 320-26, Kajzer 2007, 276).

Finally, although the existing "entitlements for unemployment benefits could hardly be described as generous" (Stanovnik 2004, 329), the government, inspired by the 1994 OECD Jobs Study, launched the remaking of the social system in line with the "workfare" doctrine in 1998 (Kopač and Rakar 2010, 15). Among other things, the eligibility criteria were tightened, and means-tested flat-rate social assistance for those whose unemployment compensation had expired was introduced (for a detailed account see Kopač and Rakar 2010, 15-18). However, the system of parental compensation, child allowances, and educational grants, which mainly remained based on social criteria, allowed poorer households and persons that were temporarily or permanently unemployed to maintain their consumption (Stanovnik 2004, 319-20, 329).

Therefore, it was not only the exit from the early 1990s crisis, but also a relatively successful economic recovery that was to a large extent dependent on the mobilisation capacities of the trade unions, especially the AFTUS. Thus, it was labour that secured most the restoration of capitalism in Slovenia. In fact, one might even say that labour was also the principal nexus that held together the exceptional export-oriented yet "national" capitalist regime on the European periphery.

5.3.1.2. Exceptional "national capitalism" on the European periphery

Socioeconomic sustainability, elite stability, and system's legitimacy were identified as the main factors (Epstein 2008, Pula 2016, Drahokoupil 2009) that determined the viability of post-socialist state strategies to "privilege the creation of local bourgeoisies over promoting the interests of foreign investors" (Drahokoupil 2009, 112). Indeed, in contrast to many other post-socialist states that by the late 1990s found themselves in another crisis and were led to make foreign MNCs the pillars of their industrial and financial expansion (Drahokoupil 2009), Slovenia was widely recognised for its relative political stability, characterised by an almost uninterrupted twelve-year-long hegemony of centre-left coalitions, macroeconomic stability, and capacities to secure the pro-export reconversion of domestic production without significant deterioration of its external position. In fact, one might observe that the relative internal stability of the established accumulation regime went hand-in-hand with its external stability.

To measure the international position of the Slovenian economy, the current account balance, net FDI stock, and net international investment position (NIIP), all in terms of the share of the country's GDP, are taken as proxies (see Table 11). Whereas the current account provides a general information on a country's trade position, the net FDI stock indicates the extent to which a country is a net importer or exporter of capital stock that does not create a debt. In contrast to external debt, which only takes into account borrowed money, NIIP measures the difference between a country's external financial assets and liabilities. If a country has a negative NIIP, it is a net debtor. Thus, NIIP could be used as an indicator of a country's financial position or its reliance on interest-bearing capital.

Table 11 **The external position of Slovenia, selected indicators, 1996–2002 average**

	1996–2002
Current account balance, % of GDP	–0,8
Net FDI stock, % of GDP	–8,5
Net International Investment Position, % of GDP	–4,6

Note: Net FDI stock represents the value of outward FDI stock minus inward FDI stock.
Sources: Eurostat (current account and NIIP), UNCTAD. Stat (net FDI stock).

In 1999, only Austria and Italy had lower shares of FDI relative to GDP among the EU members, and all candidate countries had higher shares than in Slovenia (Eurostat). Relatively modest inflows of FDI helped Slovenia keep its current account in check because they prevented outflows of dividends and payments. At the same time, the concentration of FDI in only one segment of the economy, together with state-led rehabilitation of the banking sector and the (mild) system of capital controls, all limited the reliance of domestic producers on external sources of finances. As can be observed from Table 11, the foreign liabilities of Slovenia remained below 5% of GDP during the period of EU/EMU accession.

Therefore, the neo-corporatist regime, shaped by power-sharing arrangements between the wage-labour nexus and competition and monetary regimes, successfully stabilised the internal and external macroeconomic position of Slovenia after the early 1990s. However, framed within the EU eastward enlargement strategy, which promoted foreign capital and demand as the main drivers of economic prosperity, the established regime was "founded on the unsustainable use of inherited resources, particularly human" (Stanojević 2012, 869).

5.3.1.3. Growth without jobs and with intensive use of labour

By the end of the 1990s, the first signs appeared that signalled the weakness of the shift in development strategy in favour of export-oriented industrialisation and minimal involvement of the state in economic restructuring. The destabilisation of the current account balance was indicative of the shortcomings of (too rapid) external liberalisation, as well as of the asymmetrical character of European integration (cf. Podkaminer 2013, 21). Once the domestic demand improved after the mid-1990s, the strengthened imports started to build up a trade and current account deficit. Imports received additional impetus from the EAA, which opened access to new export markets for domestic producers, but also "compelled Slovenia to open its markets to EU exporters on preferential conditions" (Majcen and Kamiński 2004, 141). Thus, in 1997 and 1998 imports increased annually by a stunning 12.5% on average and the deficit on the balance of goods dragged the current account balance down. Whereas in 1994 Slovenia's current account surplus exceeded 4% of GDP, in 1999 the deficit stood at 3.1% of GDP (SI-STAT).

In fact, whereas the pro-European corporatist compromise and its socio-political arrangements did prevent the outright destruction of most inherited capital stock, productive capacities, and skills, they were unable to generate sufficient capital flows for the creation of new and technologically improved production facilities (cf. Landesmann and Abel 1995, 316). The restored economic growth was a jobless one: between 1992 and 2002, real output increased by almost 48%, whereas employment and the labour force practically stagnated (Silva-Jauregui 2004, 125). What is more, industrial upgrading was slow and the technological improvement of manufacturing meagre: Rojec et al. (2004, 472) report that Slovenia was one of the rare CEECs in which the share of employment in high-tech industries dropped during the 1990s; in fact, by 2000, the country held the lowest share of employment in this sector among the CEECs.

Therefore, rapid productivity growth (measured as GDP per employee in full-time equivalent), rising between 1996 and 2002 from 37.5% to 45.2% of the EU-15 average (Rojec et al. 2004, 463), was mostly realised by cutting jobs and extending numerical and temporal flexibilisation of labour,[44] especially within manufacturing (Pirher et al. 2000, Meardi et al. 2009). This pattern of using work intensification as the main source of improving productivity was particularly pronounced in manufacturing (Rojec et al. 2004, 463), despite the fact that this sector received the most foreign capital input.

Concerned about the increasing gap between favourable macroeconomic results and relatively slow technological restructuring, as well as about the potential negative impacts of heightened competition associated with the EU/EMU accession, Rojec et al. (2004, 462) proposed that the Slovenian government should "step up the pace and replace gradualism with accelerated reforms". Yet, it was not insufficient liberalisation that posed a threat to the convergence process. In contrast, it was too much WCA liberalism that aggravated the inherited weaknesses of the Slovenian economy. What is more, by signing the EAA the Slovenian leadership institutionally cemented the decision that their post-Communist strategy of catching up would *not* emulate practices and arrangements pursued by the European core countries when they were at the "stage" of development similar to that of Slovenia at the end of the twentieth century (cf. Chang and Nolan 1995, Chavance 2011).

In 2004, when Slovenia became a full EU member, the warning sign of potential risks associated with the chosen strategy of "returning to Europe" also emerged at the political level (cf. Močnik 2006, 118-20). The impacts of the accelerated remaking of the Slovenian

[44] Regini (2000) distinguishes three types of flexibility: a) numerical flexibility refers to the capacity of employers to lay off workers and use "atypical" forms of employment; b) temporal flexibility refers to variations of working hours per day, week, or year; and c) functional flexibility refers to the reorganisation of the working process and labour force, such as job rotation, multi-skilling and apprenticeship, labour mobility, and so on.

regulatory regime in line with the EU/EMU constraints fuelled the conservative discontent that started to appear already at the end of the 1990s (cf. Stanojević 2012, 865). In 2004, the electorate decided in favour of a political sea change that brought a right-right government into power. However, instead of a shift in developmental strategy, the Slovenian electorate gained only a more openly authoritarian yet equally "pro-European" government.

5.3.2. Euroisation and debt-led accumulation

The accumulation and regulatory regimes established under the pro-European corporatist compromise were based on three conditions: 1) relative state sovereignty over macroeconomic policy and socio-political arrangements that Slovenia gained after separating from Yugoslavia and escaping from IMF supervision; 2) a specific class-power balance, characterised by relatively strong socio-democratic yet corporatist trade unions, and, finally, 3) concerns about sharing cooperation between the monetary and competition regimes on the one hand, and the political and economic management of labour on the other. However, already before the formal entry of the country into the EU and the ERMII regime in 2004, those structural and class-power pillars of the 1990s growth trajectory started to erode. The transfer of macroeconomic policy-making to the EU level not only offered new opportunities to gradually liberate monetary and competition regimes from labour pressures and territorialised democratic constituencies, but was also favourable to exacerbating development weaknesses with the dependent financialisation.

5.3.2.1. <u>Debt-fuelled private investment and moderated household consumption</u>

The previous chapter argued that the uneven rescaling of the neo-corporatist arrangements in line with the EMU regime created necessary structural conditions for increasing dependency on interest-bearing capital. It was, however, a particular conjunction of factors on the demand and supply sides that paved the way to the actual change in the accumulation regime and a shift in favour of debt-fuelled growth.

The euro launch improved expectations and contributed to a favourable international conjunction and external demand: consequently, the volume of Slovenian exports grew on average by 10% between 2001 and 2007 (SI-STAT). The improved terms of exports are also seen in Table 12, in which the share of exports and services in GDP growth almost doubled with respect to the period from 1996 to 2002. Nevertheless, the external trade balance remained negative because of a relatively faster growth of imports. In fact, the improved exports increased domestic incomes and profits, and stimulated investment activity. However, investment could have been brought to a standstill had not the financial boom on world markets and the capacities of the Slovenian banks to access foreign savings filled the gap in the insufficient level of domestic resources (Ponikvar, Tajnikar, and Došenović Bonča 2014, 163).

After a reduced activity in transport construction substantially cooled down investment at the beginning of 2000 (IMAD 2004, 110), investment increased by 10% on average between 2003 and 2007. As shown by Table 12, compared to the 1996–2002 period investment, with an average annual increase of 2.8%, contributed much more to GDP growth during the 2000s. As suggested by a strong increase in corporate indebtedness discussed above (see Section 5.2.3.3), expanding investment was to a significant extent fuelled by foreign loans. State consumption decreased further, whereas household consumption remained practically the same. Inflows of foreign loans gave new impetus to economic growth: between 2003 and 2007, average GDP growth exceeded that recorded in the previous period by one percentage point.

Table 12 **GDP growth and its components, 2003–2007 average**

	2003–2007
GDP growth	4.8
Final consumption expenditure	
… General government	0.5
… Household and NPISH	1.7
… Gross capital formation	2.8
External balance of goods and services	–0.2
… Exports of goods and services	6.3

Note: NPISH refers to non-profit institutions serving households.
Source: SI-STAT.

In fact, economic expansion mitigated effects on household income and consumption. Due to the restrictive income policy pursued during the EU/EMU accession, wages improved only very slowly after the massive collapse in the early 1990s (cf. Onaran 2011). Therefore in 2004 the average real wage was still *below* its 1989 level. That level was attained again only in 2006, and the following year the average real wage index stood at 108.1 (1989 = 100; (Podkaminer 2013, 17).

Moreover, during the 2000s the security offered by the Slovenian welfare state provisions weakened further. The 2002–03 labour market reform, accompanied by the de-indexation of wages, undermined the rights and job protection of the "core" labour force for the first time (Kračun 2008, 17, Kajzer 2007, 472–73). The reform of the social protection system implemented in 2006 further restricted the eligibility to unemployment allowances by requiring those unemployed for more than three years to accept any kind of job and by introducing the concept of "suitable work" – if the unemployed refused a job offer chosen by the rehabilitation commission, the (already small) allowances were cut by half (Kopač and Rakar 2010, 15-19). As a consequence, as Leskošek and Dragoš (2014, 42) emphasise, it was in a year of the unprecedented economic growth when GDP went up by an almost staggering 7% that poverty increased the most rapidly, with the at-risk-of-poverty rate going up by 1% in a single year. A further restructuring of the system of income redistribution and social security in favour of financial concerns and a slow long-term wage recovery probably also explain why loan growth to households did not lag much behind that of the corporate sector during the 2000s.

5.3.2.2. Slower industrial up-grading and precarious working-class restructuring

By fuelling mostly private, cyclically sensitive, and low-value sectors (Ponikvar, Tajnikar, and Došenović Bonča 2014, 160), dependent financialisation further accelerated a relative weakening of productive capacities and slow technological upgrading that had shaped export-led industrialisation since the early 1990s. Intensive use of labour continued to be the prime driver of rising productivity: according to the European Working Conditions Survey, the work overload in Slovenia was among the highest in Europe in the mid-2000s (Stanojević 2012, 864-868). Productivity growth slowed down, and increased from 45% to 50% of the EU-15 average between 2002 and 2007; in a similar vein, the share of high-value-added exports among total exports stagnated, and the shares of employment in medium and high-tech industry in total employment decreased further (Šušteršič et al. 2008, 39).

Given the character of the accumulation regime and the existing labour market regulation, the economic boom could only further fuel the expansion of temporary, low-qualified, and low-paid work (cf. IMAD 2008, 146). Increasing from 12.8% (2000) to 18.5% (2007) of total employment, the expansion of temporary jobs in Slovenia was among the highest in the EU during the 2000s (IMAD 2014a, 176). With 68% of youth (76.8% women and 62.5% men) working on temporary contracts in 2007, Slovenia even outpaced *all* EU member countries

(IMAD 2008, 146-47). Bearing this in mind, it is worth quoting at length the observation by Onaran (2011), based on the earlier work by Reinert and Kattel (2004).

> Although the shift in employment from industry towards services is a pattern, which […] can be observed in developed countries as well […] the type of deindustrialisation in the CEECs is qualitatively very different from the slow "de-industrialisation" of high-income countries, which upgrade into a knowledge-intensive service sector. In contrast, the service jobs created in the CEECs are mostly low–skilled and low-paid jobs. (Onaran 2011, 218)

The accelerated precarisation of employment did not resolve the problems of job creation: the average unemployment rate during the debt-fuelled growth was practically at the same level (6.1%) as that sustained during the 1996–2002 period (6.8%) (SI-STAT). If one considers a long-term record of employment and economic output, the class character of the Slovenian post-socialist transition is clear: productivity and the GDP grew by almost 4% and 4.3%, respectively, between 1994 and 2007 on average annually, compared to employment, which went up by a mere 0.3% (Onaran 2011, 216). A temporary imposition of labour as a politically influential actor could not prevent a progressive yet steady political transfer of produced wealth and productivity gains away from those that contributed the most to their creation: between 1995 and 2007, the share of income and wages in GDP decreased by almost six percentage points (SI-STAT). Neither improved external conditions nor higher rates of economic growth reversed the trend of unequal redistribution of resources in favour of capital and the higher social classes.

What is more, during the 2000s, the contours of the developing peripheral capitalism in Slovenia did not become visible only at the internal level but at the external level as well (see Table 13).

Table 13 **The external position of Slovenia, 2003–2007 average, selected indicators**

	2003–2007
Current account balance, % of GDP	–2.2
Net FDI stock, % of GDP	–10.7
Net International Investment Position, % of GDP	–13.3

Note: Net FDI stock represents the value of outward FDI stock minus inward FDI stock.
Sources: Eurostat (Current account and NIIP), UNCTAD.Stat (net FDI stock).

The accelerated liberalisation and selling of domestic, state, or privately owned firms to foreigners provoked a structural change on the Slovenian current account balance (Mencinger 2009, 35-36). The outflows of dividends and interest payments experienced an over seven-fold increase between 2001 and 2007, and dragged down the current account balance. The increase in the current account deficit to 2.2% of GDP was not simply related to "a temporary worsening of terms of trade and a quick economic growth. The deficit on the current account [became] a constant feature, since trade deficit became more and more combined with more stable deficits on the account of income and current transfers" (Mencinger 2008, 6). Therefore, despite the expansion of domestic MNCs, foreign FDI stock exceeded the outward stock by almost 11% of GDP, in comparison to 8.5% of GDP in the 1996–2002 period. In quantitative terms, however, the most impressive change took place with respect to the country's external financial position, indicating the switch from predominantly domestic-based financing toward foreign financing. During dependent financialisation and export-led industrialisation the annual net foreign liabilities of Slovenia increased to 13.3% of GDP between 2003 and 2007, compared to 4.6% of GDP between 1996 and 2002.

Therefore, as has been already mentioned, the more the bargaining position of actors and institutions that defended income redistribution policies weakened in domestic arrangements, and the more such arrangements were re-scaled and reshuffled under the EU/EMU regime, the more the structural weaknesses of the Slovenian economy that were masked behind favourable growth rates strengthened. Whereas the political reliance on the European integration project provided an effective weapon in domestic struggles, it also produced powerful feedback effects on the state's capacities to control and regulate domestic economic activity. After the mid-2000s, the Slovenian economy entered a vicious circle of economic overheating, and the explosion of the crisis simply became a question of time.

5.3.2.3. Economic overheating, limited state macroeconomic capacities and the path toward the crisis

As early as in 2005, when the ratio of nominal growth of loans to nominal GDP reached a value never recorded in the previous ten years, the BS warned in its report about "a danger of the lending market overheating" (Bank of Slovenia 2006, 68). In the 1990s, the highest level of the ratio reached 2.7%; just a year after the country entered the EU and the ERMII, the ratio approached 5%. Nonetheless, in the two following years the overheating process concerned not only the lending market, but the economy as a whole (Ponikvar, Tajnikar, and

Došenović Bonča 2014, 160). During 2005 and 2007, a vicious circle of low unemployment, inflationary pressures, undermined price competitiveness, high indebtedness, and growing current account deficits paved the way toward the crisis that announced itself in 2008, when GDP growth rapidly slowed down (see Table 14).

Rapid economic growth after 2005 caused a rapid decline in unemployment and stimulated the growth of nominal wages. Because nominal wages outpaced real wage growth, the economic boom fuelled inflation as well, reaching 5.5% in 2008 (the highest since 2003). Unit labour costs increased (110.8 in 2008, 2005 = 100) and undermined the (price) competitiveness of exports (Kržan 2014, 330-31). Due to rising inflation, the real interest rates were even lower than in other Eurozone countries after 2006 – in fact, in late 2007 and early 2008 they were even negative (Bank of Slovenia 2015, 11). Unsurprisingly, loans exploded and grew by over 37% in 2007.

Table 14 **The overheating of the Slovenian economy, 2005–2008, selected indicators**

	2005	2006	2007	2008
GDP growth, %	5	5.7	6.9	3.3
Unemployment rate, %	6.5	6	4.9	4.4
Average nominal wage growth, %	6.2	5.7	6.4	7.2
Average real wage growth, %	3.9	3.2	2.6	1.5
Inflation, %	2.5	2.5	3.8	5.5
Growth of loans to non-banking sectors, %	26.1	26.4	37.4	17.7
Current account balance, % of GDP	–1.8	–1.8	–4.1	–5.3
Net external debt, % of GDP	3.1	10.6	24.2	34.5

Sources: GDP growth, unemployment rate, current account balance, net external debt (Eurostat), wage growth (OECD.Stat), inflation (SI-STAT), loans to non-banking sectors (2005–2007 (Bank of Slovenia 2008b, 61), 2009 (Bank of Slovenia 2009, 78)).

Financial prices and real-estate prices grew rapidly as well: between 2004 and 2007, the Ljubljana stock exchange index (SBI 20) increased by more than two and a half, reaching 12,242 points a year prior to the emergence of the crisis in Slovenia (Kržan 2014, 329). The growth in housing prices rose from 14% in 2006 to 23.4% in 2007 and additionally stimulated investment by increasing expectations on profits (Ponikvar, Tajnikar, and Došenović Bonča 2014, 159, Bank of Slovenia 2009, xv). Finally "[i]n August 2005, Slovenia still had a positive position (i.e. it was a net creditor to the rest of the world), while at the end of 2008, the net debt reached €11.5 bln" (Kržan 2014, 329).

Bole, Prašnikar, and Trobec (2012) have pointed to “an absence of any macroeconomic brakes as a crucial failure of macroeconomic policy in the boom years 2007–2008”. Concerning the role of macroeconomic policy, one should also take into account a radical change in policy manoeuvring space that occurred by the mid-2000s (cf. Kržan 2014, 328). The state capacities to control domestic economic activity weakened considerably in favour of those of the Brussels/Frankfurt institutions. What is more, “limitations on the conduct of economic policy differ between larger and smaller EMU countries. Larger EU and EMU countries have the power to influence EU and EMU economic policies designed for all member states. That is why EU economic policies are tailored more to the needs of such countries” (Ponikvar, Tajnikar, and Došenović Bonča 2014, 145).

Indeed, the ECB’s policy of low interest rates seemed not to consider the risky growth of debt-fuelled investment nor pro-cyclical impacts that its policy had within the conditions and structures proper to the Slovenian economy. As emphasised by Ponikvar, Tajnikar, and Došenović Bonča (2014, 162, emphasis in orginal), “[t]he overheating […] could have been alleviated with proper monetary policy measures that could have *destimulated the investment activity* of the corporate sector and households, thereby preventing the high indebtedness of corporations and households”. In a similar vein, the loss of the exchange-rate mechanism prevented the use of currency depreciation as a way to shift or at least slow down the deteriorating trade balance (Ponikvar, Tajnikar, and Došenović Bonča 2014, 162).[45]

As a consequence “a small EMU country such as Slovenia [could] only shape incomes and price policies and partly also the fiscal policy to overcome the current economic crisis” (Ponikvar, Tajnikar, and Došenović Bonča 2014, 145). Moreover, recall that when rapidly rising inflation started to undermine price competitiveness the Slovenian government indeed re-discovered the advantages of tripartite bargaining and “sharing risks and responsibilities in a precarious environment” (Crouch 2000, 224). However, in contrast to the past tripartite agreements, the 2007–09 social pact faced considerable implementation problems. Stockhammer (2014, 1-2) explains it clearly, stating that “[b]y separating money (and central banks) from governments they [(national) European capitalist classes] created a highly unstable situation that undermines nation states’ ability to underwrite social compromises”.

[45] It should be noted, however, that according to Ponikvar, Tajnikar, and Došenović Bonča (2014, 162) currency depreciation was not a feasible option because it would stimulate export activity. According to them, in 2006 and 2007 the Slovenian economy already operated at full capacity utilization level.

Therefore, “the economic crisis in Slovenia was inevitable and would have emerged even without the impact of the global economic crisis” (Ponikvar, Tajnikar, and Došenović Bonča 2014, 161), the high levels of GDP were in stark contrast to the political and regulatory abilities of Slovenia to shape domestic accumulation and the regulation regime. The country prepared a rather unfavourable legacy for itself for the upcoming meltdown. What is more, this legacy was further burdened by the country’s interdependent, yet asymmetrical, interaction with other European countries and their national accumulation and regulatory regimes.

5.3.3. Asymmetrical interaction with other European accumulation regimes

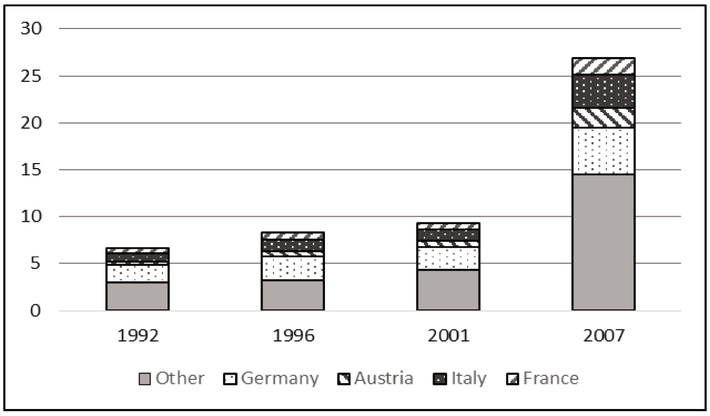
The development of the Slovenian economy was not isolated from the broader reorganisation of production at the European level that unfolded after the 1980s. After separating from Yugoslavia, the country became increasingly integrated into the network of asymmetrical interactions that was progressively built between the European economies and consolidated after the launching of the euro. An in-depth account of the European interdependent structural imbalances and development trajectories is beyond the scope of this analysis and readers are referred to the studies by Bellofiore, Garibaldo, and Halevi (2010), Lapavitsas (2012), Becker and Jäger (2012), Becker and Weissenbacher (2014), and Stockhammer, Durand, and List (2016). In fact, by bringing the Slovenian growth trajectory into relation with other European countries, the discussion here mainly seeks to highlight that the Slovenian economy was a constituent part of the specific European core-periphery structures that were consolidated during the 2000s.

5.3.3.1. *The Slovenian pro-export shift and the German core*

Stating in the early 1990s, the export-oriented restructuring of Slovenian production was an integral part of the formation of a powerful bloc of countries, represented by Germany in the lead and countries whose growth regimes were closely related to the German one, such as the Netherlands, Austria, northeast Italy, and the group of neighbouring countries in Scandinavia, in particular Sweden (Bellofiore, Garibaldo, and Halevi 2010, Becker and Jäger 2012, 176, Jessop 2014, 250).

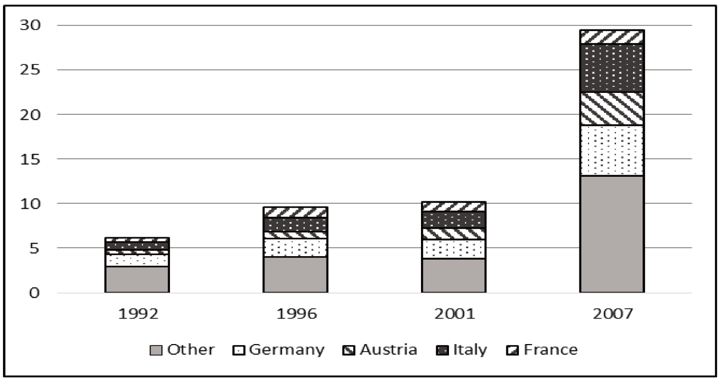
As can be seen from Figures 18 and 19, among the four main Slovenian trading partners from the EU, Germany occupied a central place. During the 1990s, almost a third of the value of exports was realised on German markets. In the following decade, however, Germany's importance as the main Slovenian export market decreased in relative terms – in 2007 less than one fifth of the value of exports was realised in Germany. The launching of the euro and dependent financialisation were particularly favourable to the expansion of Slovenian trade in other countries of the former Yugoslavia. It is also noteworthy that the shit in development strategy in favour of exports and European integration substantially enhanced trade linkages with Italy – in 1992, less than 1.5% of exports were realised on the Italian markets; by absorbing over one tenth of Slovenian products in 2007, the neighbouring Western country became the second most important trading partner for Slovenia, followed by Austria. Imports too were mostly realised with Germany, Italy and Austria; as Figure 19 indicates, the deepening of trade imbalances prior to the crisis was mostly related to asymmetrical trade with these three countries, from which Slovenia imported almost half of its imports.

Figure 18 **Main trading partners, exports, 1992–2007, USD million**



Source: SI-STAT.

Figure 19 **Main trading partners, imports, 1992–2007, USD million**

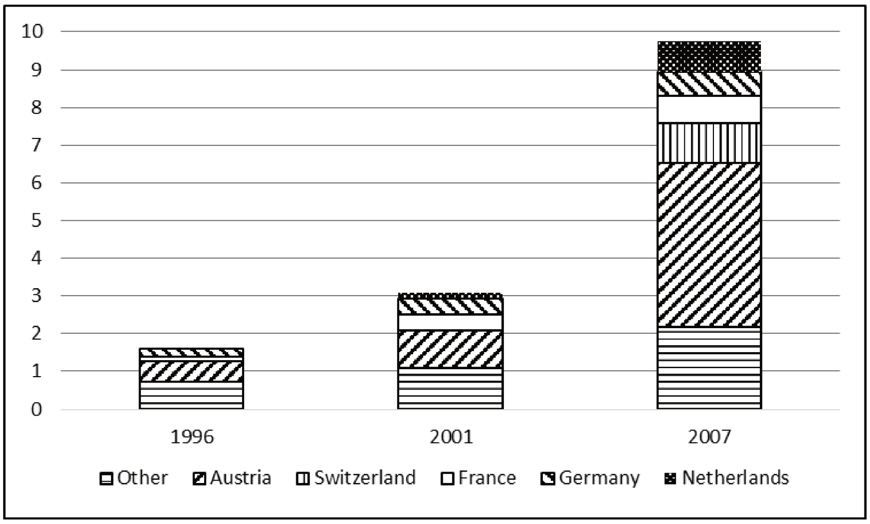


Source: SI-STAT.

Imported inputs were composed at home and often returned to Germany or Italy in the form of exported products: whereas the main imported products were road vehicles, followed by petroleum, petroleum products, and electrical machinery, the main exports were road vehicles, medical and pharmaceutical products, electrical machinery and appliances, and industrial machinery.

Foreign investments, however, mainly came into the region from neighbouring Austria (see Figure 20). After controlling about 36% of the total Slovenian IFDI stock in the mid-1990s, the expansion of foreign banks during the 2000s allowed Austria to hold almost half (44.3%) of the total IFDI stock in 2007, with EUR 4.3 billion of FDI stock being concentrated in the financial intermediation sector without insurance (Bank of Slovenia 2008c, 20). Raviv (2008, 304) explains that "[w]hile German banks were busy at home with the shocks and costs of unification, their Austrian counterparts have taken advantage of their geographical ties, and particularly of their historical experience in the region, to establish an early movers advantage, and build dominant market positions in several different Central European markets".

Figure 20 **Inward FDI stock by investing countries, selected years, EUR billion**



Sources: 1996 (Bank of Slovenia 2000, 14), 2001 (Bank of Slovenia 2005, 18) 2007 (Bank of Slovenia 2010b, 18).

Slovenia was therefore a constituent part of the imperialist internationalisation of the German automobile industry and Austrian banks to the CEECs. Nonetheless, the establishment of the European core-periphery was not only based on the increasing asymmetrical dependencies between post-socialist industrialised latecomers and the German core duo. Once the euro was launched and the interest rates reduced, the European economies were led to significantly strengthen their links and establish a dense network of structurally interdependent yet diverging trajectories.

5.3.3.2. Intensified and stronger, yet asymmetrical interdependencies

Seeking to reduce transaction costs and to create a single financial market, the Financial Service Action Plan, worked out within the DG Internal Market and incorporated in the Lisbon Treaty removed regulation constraints to the free movement of capital and created a single European financial market. As explained by Stockhammer (2016, 6), "[i]n theory this means uniform interest rates across Europe and in practise it meant massive capital flows from Germany, France and the UK to the peripheral European countries".

The German experience toward absolute leadership is well documented: the delocalisation of production expansion of trade linkages to post-socialist economies (including the former East Germany), vigorous suppression of living and working conditions at home, especially those in the public sector, as well as an undervalued German mark at the beginning of the decade helped the country dampen the growth of prices and unit labour costs and therefore to further improve its international competitiveness. A similar observation can be made with respect to Sweden and Austria, where neo-corporatist regulations facilitated a restrictive income policy and export-oriented economic growth (Becker and Jäger 2012, 176).

These groups of countries thus succeeded in improving their trade balances and accumulating substantial current account surpluses (see Figure 21 below). Those surpluses were recycled in the form of capital investments and bank lending that moved, among other things, toward the European periphery – specifically, peripheries because the countries subordinated to the German core constituted internally heterogeneous groups, with distinct structural characteristics and accumulation patterns. The current account surpluses of the European core mirrored the current account deficits of the peripheral economies that had to be matched by flows of external finance.

The industrial productive base of the Eurozone member states in the south was already badly hit by the European competition policy in the 1990s, when investment projects cofinanced by EU structural funds were mostly directed to local infrastructure. The shrinking FDI during the previous decade accelerated deindustrialisation; the trade balance worsened and dragged the current account balance down. The current account balance was "financed" by foreign loans mostly coming from Germany and France; the loans fuelled real estate speculation and bubbles (in Spain and Ireland) or household debts (in Greece and Portugal) and boosted high inflation rates (Lapavitsas 2010, 25).

The current account deficits of the Baltic states were, however, mostly financed by financial and capital inflows from neighbouring Sweden (Becker 2016, 54-55). At the beginning of the 1990s, the productive base of these countries was already limited to low-value export production and low deposit bases, but with plenty of scope for investment in the financial sector due to early liberalisation (Myant and Drahokoupil 2012, 10-13). FDI concentrated strongly in finance and real estate, rather than industry. Similarly to Spain and Ireland, the economic boom in the previous decade almost entirely relied on loan-fuelled domestic investment and rising consumption in the construction and real estate sectors. However, in contrast to the Eurozone "South", the dependent financialisation of the Baltic three was based on foreign currency loans; indicative of the weakening of household purchasing power after the 1990s, Estonia and Latvia recorded the highest ratio of private loans to GDP (Becker 2016, 56). Due to the countries' dependencies on foreign investors with little interest in improving the country's productivity and productive infrastructure, trade imbalances and the repatriation of profits contributed to one of the highest current account deficits in the EU (Mencinger 2008, 9, see also below).

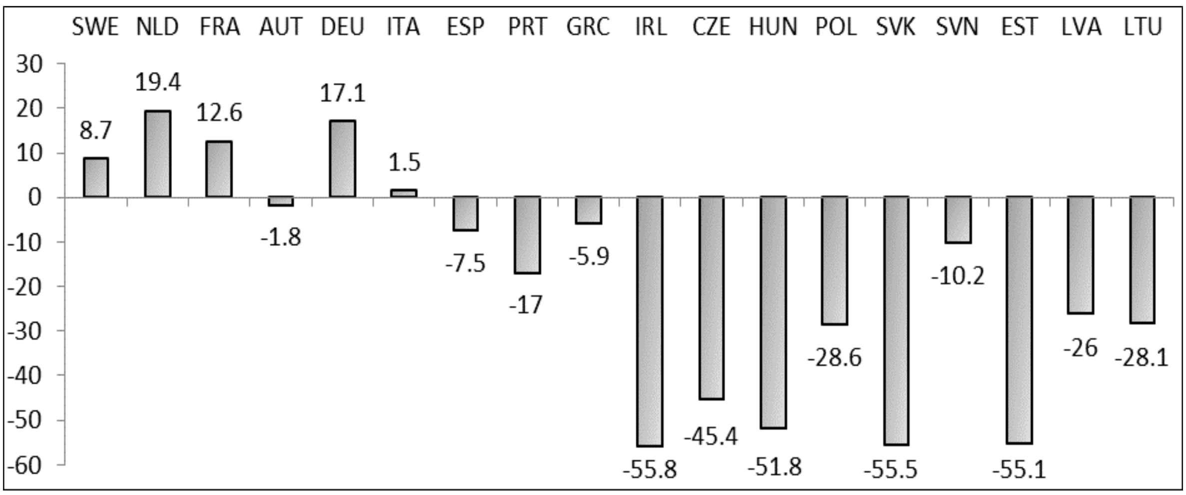
In contrast to the southern and Baltic regions, the Visegrád four became a crucial, albeit subordinated, part of the German automobile and Austrian banking empires. Becker (2016, 53) reports that "Volkswagen alone is today responsible for one-third of auto production in the Visegrád countries" whereas Austrian banks held major market shares in all of the countries except Poland. The Visegrád group consolidated its position of complex manufacturing exporters and significantly narrowed its trade deficits by the mid-2000s. Nevertheless, the repatriation of profits and dividends weighed heavily on the countries' current accounts and dragged their balances down (Mencinger 2008, 9). Loan-fuelled growth was less pronounced in the region, except in Hungary, where household loans denominated in foreign currency expanded massively prior to the crisis (Myant and Drahokoupil 2012, 6, Bohle and Greskovits 2012, 45-48).

5.3.3.3. Locating EU member states on the European core-periphery

This section complements the qualitative analysis from above with a quantitative assessment of the asymmetrical interactions of the European accumulation regimes during the 2000s. It is based on a set of variables already used in the analysis above of the international position of Slovenia; that is, current account balance (Figure 21), net FDI stock (Figure 22), and net international investment position (NIIP; Figure 23), all in terms of share of a country's GDP. The geographical range covers some old EU member states, Eurozone member states, and post-socialist EU member states. Finally, all of the indicators are presented as the average values between 2001 and 2007 because developments in 2008 were already influenced by the emerging global crisis.

The figure on the current account balances confirms the geographical division of the European core-periphery structures. Standing at almost 6% of GDP, Sweden accumulated the highest average current account surpluses between 2001 and 2007. However, the introduction of the euro was the most beneficial to Germany: its deficit of almost 2% of GDP at the beginning of the decade quickly narrowed, and by 2007 the country accumulated surpluses in values of almost 5% of GDP. As can be seen, important asymmetries also exist within the peripheral bloc: extreme positions are held on the one hand by Portugal, Greece, Hungary, Estonia, and Lithuania, which all recorded deficits above 6% of GDP, and on other hand by Slovenia and Ireland with the lowest levels of deficits, standing below 2% of GDP.

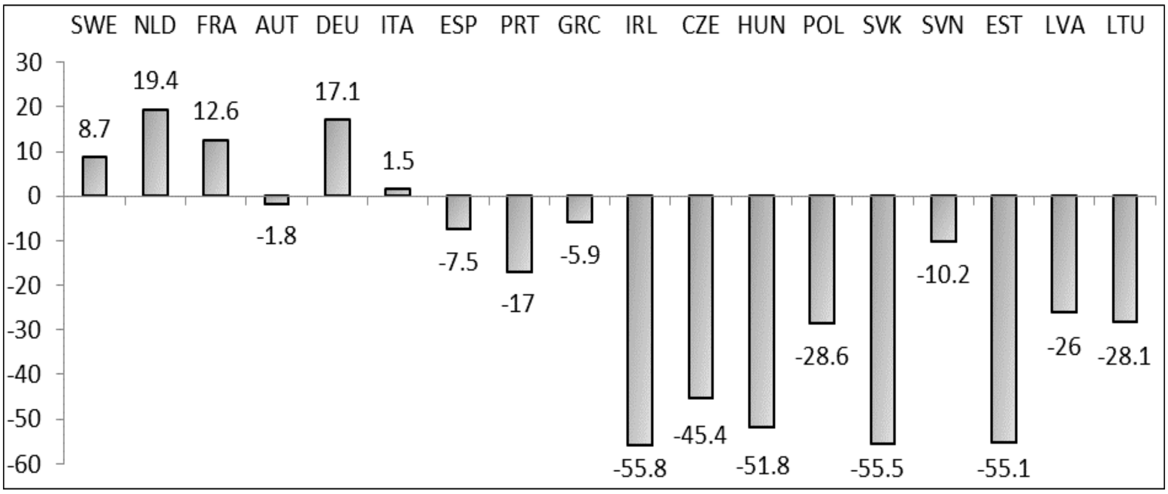
Figure 21 **Current account balance, selected EU countries, 2001–2007, average, % of GDP**



Source: WBI; for Austria, Ireland and Slovenia: Eurostat.

A similar international division shaped the pattern of redistribution of FDI (Figure 22). The Netherlands and Germany were dominant exporters of productive capital in relative terms. The southern countries of the EMU received only small proportions of foreign investments, in contrast to post-socialist countries, in particular Estonia and the Visegrád four, except Poland. By 2007, inward FDI overpowered the countries' outward investment stock by almost half of the wealth that they produced (45% of GDP). With respect to Slovenia, it occupied an intermediary position within the group of peripheral economies, with inward foreign investments exceeding investments by the country abroad by over 10% of GDP.

Figure 22 **Net FDI stock position, selected EU countries, 2001–2007, % of GDP**

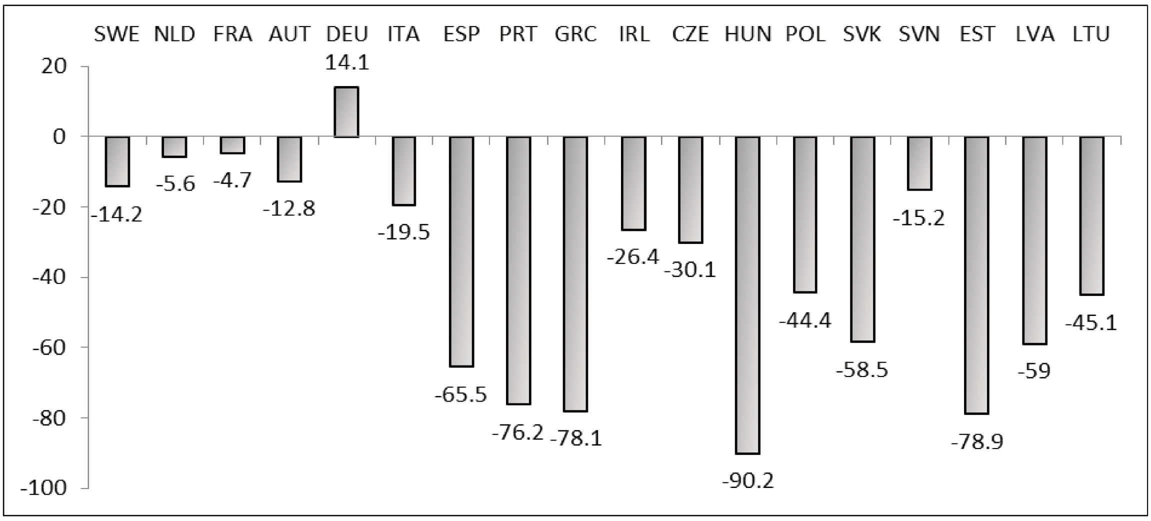


Source: UNCDAT.

The structuration of international monetary capital flows followed the asymmetrical pattern already observed. Although Figure 23 shows that most of the old EU member states were in the position of a net debtor with negative NIIP, these countries actually tended to improve their international financial positions during the 2000s. Being the only country in the position of a net creditor, Germany is particularly outstanding in this respect. In contrast, the Eurozone member states in the south, as well as post-socialist Hungary and Estonia, owned almost four-fifths of their GDP abroad. Foreign-fuelled loan activity also accelerated in other CEECs; in relative terms, however, they hold a rather intermediate financial position, with Slovenia as the least indebted country.

One can notice that other countries also occupied ambivalent positions. Among the old member states, the positions of France, but mostly Italy, considerably weakened during the previous decade. There is, however, one country that clearly stands out by succeeding in becoming the main trading, investing, and financial power in the EU – Germany.

Figure 23 **Net international investment position, selected EU countries, 2004–2007, % of GDP**



Source: Eurostat.

Although Slovenia was led to adopt many regulations echoing German corporatist arrangements, and despite the fact that the international regimes of both economies are tied to the EU/EMU regime, their economic processes and international position structurally diverged. What is more, as will become clear in the next chapter, the differences in their political powers and capacities to shape the decisions made at the EU level were even more striking. The contextualisation of the Slovenian export-led industrialisation with dependent financialisation in the European core-periphery thus provides additional insight into the European eastward enlargement logic of "kicking away the ladder" (cf. Chang 2002), in which attempts toward institutional convergence acted as drivers of structural divergence and international power relations. Moreover, by exploring the mechanisms of relative sustainability of the Slovenian post-Yugoslav regimes of accumulation and regulations, and their capacities to resolve the structural problems of the Slovenian economy, this section also provides additional insight into the development of peripheral capitalism in Slovenia, a constitutive part of which was also the form of restructuring the working class and related reorganisation of the role of labour in the production process.

Stockhammer, Durand, and List (2016, 2) highlight that "class struggles [were] integral part [*sic*] of the processes that led to European imbalances. These struggles [took] place locally and [had] different forms, which [were] shaped by the position and trajectory of a country in the international division of labour and the differential transformations of the capitalist economies".

As was seen, in Slovenia, the temporarily imposition of organised labour as a political influential actor in the early 1990s was crucial for three reasons: 1) it significantly slowed down the attempt by the Slovenian ruling classes to use labour market institutions and wages primarily as a mechanism for improving price competitiveness, and, consequently, 2) the introduction of mechanisms of income redistribution and a temporarily disciplinarisation of monetary and competition regimes help sustain household purchasing power and, thus, a relatively solid macroeconomic recovery. Finally, 3) by deciding to become part of the pro-European corporatist coalition and siding with the broader interests of managers from leading export-oriented firms and political elites, leading trade unions helped legitimise a new post-socialist strategy of catching up for the Slovenian ruling class. As was seen, this strategy mainly relied on work intensification, foreign capital input, and an increasing transfer of decision-making powers to the EU level. Such a strategy had not only limited developmental prospects but also fuelled internal imbalances and drove the country toward the crisis.

Conclusion

To grasp the modalities and mechanisms that simultaneously weakened the bargaining position of domestic labour and made the Slovenian political economy more dependent on economic and political decisions, taken in/by the European core countries, the EC, and the ECB, the post-socialist-dependent development of Slovenia has been explored through three angles, e.g. capitalist state-building, international economic insertion, and the forms of development. As it was seen, the early 1990s period was decisive as regards all three angles; the socio-economic and financial hardships that shaped the initial accumulation of capital were both the cause and the outcome of a large-scale weakening of labour that took place under the implementation of systemic reforms and radical macroeconomic surgery; the collapse of wage and domestic demand under anti-Keynesian state policy provided necessary stimulus for a rapid trade reorientation and the deepening of the dependent integration of the Slovenian production to the European markets. At the same time, however, the early 1990s period was also shaped by the formation of key actors of the Slovenian capitalist political economy. Whereas the gaining of a relative political autonomy over macroeconomic instruments initially enabled the domestic elites to perform the unprecedented attack on labour, it also empowered the latter to become a politically influential corporatist actor during the country's accession in the EU/EMU regimes.

The on-going struggles of the Slovenian trade unions explain to a large extent why the neoliberalisation of domestic political economy after the early 1990s took a more "protractive" pace, as well as why, during the country's integration, the established neo-corporatist regime did not so much "erode" as it was unevenly re-made and re-scaled under the influence of the EU/EMU state-building. The latter simultaneously empowered domestic executive, aloof trade, competition and monetary regimes from territorialised labour pressures and democratic accountability and, as a consequence, created structural downward pressures on domestic labour markets and institutions. In fact, given such an important remodelling and internal rescaling of macroeconomic sovereignty, one could seriously doubt whether something like a "Slovenian" state still existed.

A similar observation might be made with respect to domestic economic structures that significantly internationalised under the European foreign-capital-promotion machinery. As it was seen, asymmetric trade arrangements, restricted state aid to firms under competition policy, and the liberalisation of financial markets were particularly favourable for the deepening of dependent integration of domestic producers into the international flows of commodities, productive, and money capital. It was a historical interplay between inherited structures, labour discontent from less competitive firms from the early 1990s, the formation of coalition between the circles of political and financial elites, as well as the pro-European corporatist policy-making that impacted the established form of development and its weaknesses, related to export-led industrialisation with a minor role of FDI and strong intensification of work, combined with dependent financialisation. Especially during the

2000s, the main sources of domestic growth were mainly located outside the formal territory of the country.

Therefore, a rather technical notion of the “compliance” with the EU/EMU rules hides a double process that took place in the background. By “adjusting” itself to the EU/EMU structures, the Slovenian state in fact deepened its political and economic dependency on decisions and dynamics that were outside of the country’s formal territory and insulated from democratic accountability. The more the domestic class power balance tilted in favour of capital, and the more the Slovenian state apparatuses were re-made in line with the EU/EMU regime, more domestic economic processes relied on work intensification, foreign demand, and (money) capital, and more the technological weaknesses of the Slovenian economy were aggravated by export-led and job-less industrialisation and dependent financialisation.

By institutionally displacing the control over trade, competition, and the monetary regime, Slovenia state’s capacities to regulate and control the domestic economy, and to sustain social compromises weaken substantially. In fact, one might observe that those same state, EU/EMU-shaped arrangements that helped to overcome domestic popular pressures and weaken labour also acted as vehicles of the deepening of political and economic dependency, and hence, of the country’s external vulnerability. The economic overheating at the beginning of the second half of the 2000s was the primary macroeconomic outcome of this vicious cycle of domestic class-power struggles, external dependency, as well as of institutionally incomplete state-building and, hence, limited state capacities for a relatively autonomous macroeconomic policy-making. With the outbreak of the crisis these underlying class-power, institutional and macroeconomic trends, came at the surface.

6. THE UNFOLDING OF THE SLOVENIAN EUROZONE CRISIS

2008–2015

Introduction

About fifteen years after the massive popular unrest drove Slovenia out of the socio-economic and financial hardship that shaped the restoration of capitalism in the region, the drying-up of international financial markets and the collapse of external demand triggered the period of long and lasting crisis that shocked the economic and socio-political landscape of the first post-socialist Eurozone member state. What is more, by 2010, it became clear that the country barely resembled a regional social-democratic outliner as (at least until recently) the widely accepted assertion would be: aside from an extreme government turnover, with three ruling coalitions governing (on average) for less than a year and ten months (Zajc 2015, 191), a spectacular governance assault on the basic principles of formal democracy was probably the most significant characteristic of the first major political crisis that the country faced since the early 1990s. This intense economic and political hardship that started to strike the country just a year after it adopted the common currency is the main object of the analysis here.

At first sight, then, at the turn of the 2010s, Slovenia faced a similar situation to the one from the turn of the 1990s. However, there were sharp differences on the political and economic levels. By the end of the 2010s, the weaknesses that shaped the Slovenian industrialisation within Yugoslavia were complemented with those that the country aggregated throughout its "return to Europe" and dependent integration in the German export-oriented international production system. In addition, in contrast to the early 1990s period, the structural and political capacities of domestic actors to imply on domestic economic activity and policy-making processes were totally refunded. Although in an uneven manner, the Slovenian state apparatuses became constitutive parts of the Eurozone ensemble of state apparatuses;

therefore, inasmuch as "the global financial crisis of the late 2000s and its repercussions have put the diverse developmental strategy and institutions of the [Central and Eastern Europe] market societies under stress" (Bohle and Greskovits 2012, 223), in Slovenia, the crisis referred to the Eurozone asymmetrical state-building and economic internationalisation.

What is more, during the years when the Eurozone became the epicentre of the global financial crisis, the European elites, including the Slovenian one, decided in favour of deepening the European integration project. In order "to protect the euro as the most important asset of the EU" (EU Commission 2010), as Barroso succinctly explained, a complete new set of regulatory packages and regulations was put in place under the name of the New European Economic Governance (NEEG). The aim of this chapter is to understand how the interplay between the abovementioned "euro-reshaped" structural and politico-economic features of the Slovenian economy and the NEEG shaped the economic and political crisis in Slovenia, as well as its developmental prospects.

To do this, the analytical time range is set between 2008 and 2015: since the early 2008, the signs of the crisis started to emerge, and with a GDP going down by 1.2%, the last quarter of 2008 marked the proper beginning of the economic crisis in Slovenia (OECD 2015, 21). In the mid-2010s, however, Slovenia already recorded two years of a positive economic growth as well as of a political stability. Delimiting the observed period within a year of 2015 thus allows to have a wider perspective on the period of intense hardship, as well as to make first assessments on the trends that underpinned macroeconomic stabilisation.

The chapter is structured as followed: the first section discusses the post-2007–2008 economic and financial meltdown and the second one presents the dynamics of crisis policy-making and shifts in the class-power balance. The last one explores the impacts of the crisis and the dominant policy agenda on the Slovenian socio-economic restructuring and its developmental trajectory. For better clarification, Table 15 offers an overview of the political and socio-economic dynamics by changes in ruling coalitions.

Table 15 **Political and socio-economic dynamics, Slovenia, overview, 2008–2014**

OVERNMENT	ECONOMY	POPULAR/ELITE CONTESTATION	POLICY OUTCOME	EUROPEAN INTEGRATION PROJECT
Nov. 2008 – Feb. 2012 BORUT PAHOR (centre-left)	GDP growth[1]: −2% Public deficit:[1] 6% of GDP Public debt:[1] 40 % of GDP Unemployment rate:[1] 7.6%	• Gorenje strike (September 2009) • Wildcat private sector strikes • Labour protest (November 2009) • Popular protest (May 2010) • Public sector strike (September 2010) • Referendum campaign against LMR and PSR (1st half of 2011)	• Minimum wage increase • Social system reform • Launching of privatisation • State-led bank recapitalisation	“Mastering economic interdependence” plan (May 2010) 1st European semester cycle (April 2011 – March 2012) Six pack (December 2011)
Feb. 2012 – Mar. 2013 JANEZ JANŠA (centre-right)	GDP growth:[2] −2% Public deficit:[2] 4% of GDP Public debt:[2] 54% of GDP Unemployment rate:[2] 10%	• Public sector strikes (May 2012, January 2013) • Referendum calls against the “bad bank” and the SSH (autumn 2012) • Pan-Slovenian civil society’s “winter of discontent” (November 2012-January 2013)	• Austerity-based public sector balance act • Pension system reform • Corporate tax reduction • “Bad bank” and banking recapitalisation	Treaty on Stability, Governance and Growth (March 2012) 2nd European semester cycle (April 2012 – March 2013)
Apr. 2013 – Sept. 2014 ALENKA BRATUŠEK (centre-left)	GDP growth:[3] 0.6% Public deficit:[4] 10% of GDP Public debt:[4] 76% of GDP Unemployment rate:[4] 10%	Formation of various “post–winter of discontent” political parties	• Public sector wage cuts • Constitutionalisation of fiscal rule • Labour market reform • TVA increase • SSH and privatisation • Bank recapitalisation • Restricted referendum legislation	3rd European semester cycle (April 2013 – March 2014) Two pack (May 2013)

Note: [1] 2009–2011 annual average; [2] 2012; [3] From 2013–July 2014 annual average; [4] 2013–2014 annual average.

6.1. Dysfunctional EMU regime and the Slovenian economic and financial meltdown

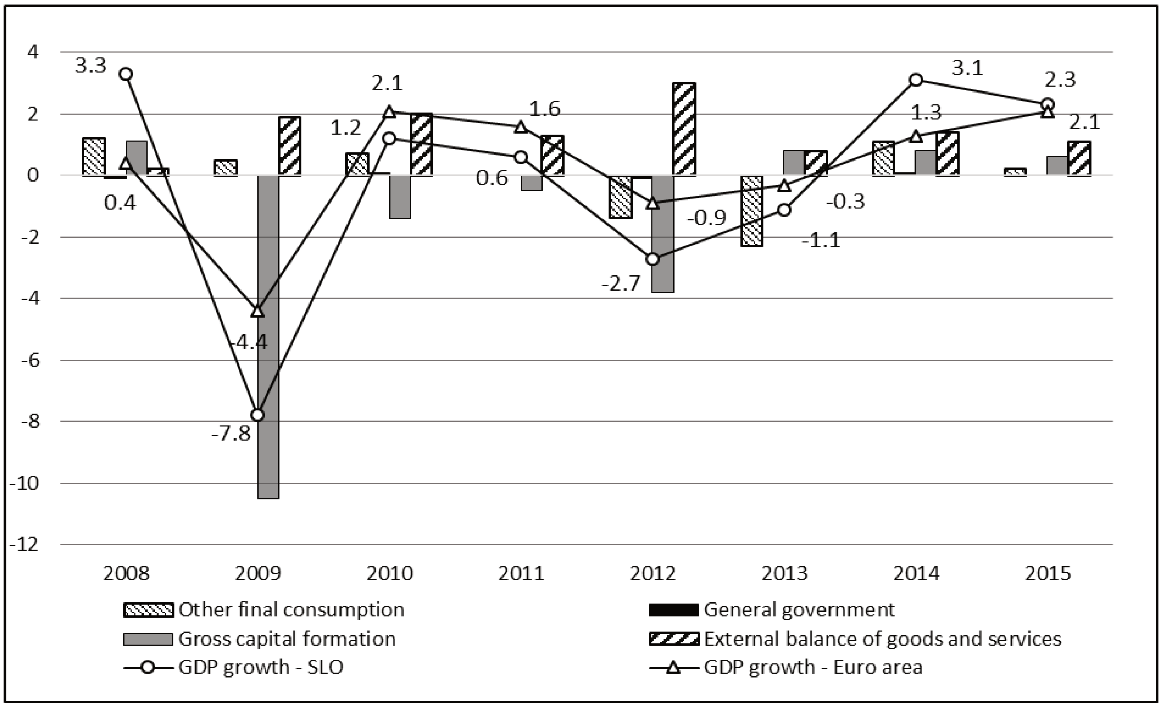
The economic and financial crisis that hit Slovenia at the end of the 2000s is the main object of the analysis in this section. Several scholars have noticed that the crisis in Slovenia was much deeper than in other CEECs, with regard to both the extent of GDP contraction as well as the difficulties that surged once external demand dried up and international liquidity evaporated. The restoration of economic output was among the slowest in the region (see also Section 6.3.3). Up to now, the main response of the literature has been to consider the pre-crisis developments and to point to export dependency and unsustainable reliance on foreign loans. Such an argument can, however, only partly explain the extent and depth of the hardships of the Slovenian economy because it tends to downplay the institutional embeddedness of the Slovenian state structures in the EU/EMU regime. By reinforcing the dysfunctional character of the EMU regulations, the NEEG regime, put in place after two years of emergency-driven public interventions, not only prolonged the crisis hardship but also transformed its character and contributed to the emergence of the crises of the banking sector and sovereign debt.

Three regulatory elements of the NEEG made the policy-making particularly dysfunctional and Slovenia even more incapable of countering the crisis than it had already been: a one-size-fits all approach in favour of financial and export-oriented fractions of capital, an austerity-based crisis policy, and the ECB status. Instead of taking into consideration the European structural asymmetries and real causes of the crisis, the EU authorities, especially the EC and the ECB, used their powers to impose policies emulating the German export-oriented accumulation and regulation regime. The austerity-based anti-crisis policies not only led Slovenia toward the second recession, but also sharply aggravated the corporate-banking indebtedness. What is more, because the ECB refused to act as a lender of last resort and to fund the government directly for most of the period, the servicing of the Slovenian public debt was exposed not only to fluctuating financial markets but also to the dynamics of other peripheral countries. Given the domestic meltdown and weakened capacities of Slovenia to regulate economic activity, the fate of domestic economic stabilisation was predominantly in the hands of actors and dynamics outside Slovenia.

The discussion proceeds in three steps: the outbreak of the crisis is studied first; then the analysis focuses on the exacerbation of the crisis after implementing the NEEG; the last part studies links between changes in EU polices and the stabilisation of the Slovenian economy.

Two remarks are in order before entering further into the discussion. To capture the drivers of the double-dip recession, the following sections mostly build on Figure 24. It shows the contribution of the main expenditure components to the economic output of Slovenia. In order to demonstrate the interdependent character of the crisis dynamics among the European economies, the average Eurozone GDP growth is also indicated. As can immediately be observed, during the entire period the contribution of general government was negligible and the overall Slovenian GDP dynamics more or less followed the European pattern.

Figure 24 **GDP growth and its main components, 2007–2015, Slovenia and Euro area, %**



Note: Other final consumption refers to household consumption and NIPS. Euro area refers to EA15-2008, EA16-2010, EA17-2013, EA18-2014.
Source: SI-STAT.

Second, because the aim here is principally to highlight the interplay between the Slovenian crisis dynamics and the NEEG, the domestic class-power struggles shaping the Slovenian political economy into the 2010s are only mentioned in passing in this section. A more detailed account is provided in the next section (6.2).

6.1.1. The outbreak of the crisis and emergency interventionism (2008–2010)

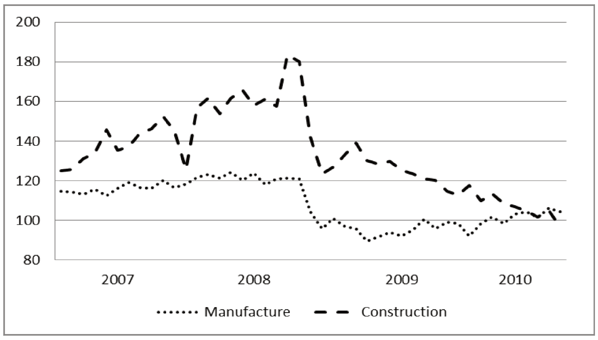
This section discusses the outbreak of the crisis. It is widely asserted that the main channels for transmitting the crisis into the local economy were related to the country's dependence on foreign demand and interest-bearing capital in the form of international integration (Myant and Drahokoupil 2012, Bohle and Greskovits 2012). However, whereas the channels of economic dependency might explain the form of the crisis outbreak, they cannot *per se* explain such a strong drop in GDP followed by its relatively rapid recovery. As will be shown, from very early on, the depth of the crisis in Slovenia was also influenced by the country's political dependency on external actors, the governments of the core countries, the ECB, and the EC. After the initial period of indecisive responses, the main political authorities allowed for more deficit-spending interventionism and shifted in favour of a more expansionary policy that succeeded in mitigating the negative effects of the crisis in the very initial period.

6.1.1.1. The economic collapse under the indecisive European responses

Starting in mid-2008, the banks mostly started to focus on reducing their foreign liabilities and were reluctant to extend existing credit lines (Bank of Slovenia 2015, 22). Between late 2007 and September 2008, the debt-to-equity ratio of the corporate sector worsened from 102% to 131% (Bank of Slovenia 2009, xiv). The number of building permits decreased substantially (Bank of Slovenia 2008a, 15), and the refinancing of loans for real estate near the coast, in south-western Slovenia, started to pose problems (Štiblar 2008, 11). The rising prices of real estate substantially slowed down, and increased by a mere 4.3%, compared to 23.4% in 2007 (Bank of Slovenia 2009, xv). In September 2008, Štiblar (2008, 11) wrote: "Our bubble will also have to loosen up one day; the question is only whether it will burst or relax gradually." The bubble did finally burst, and this happened in very radical way.

After mid-September 2008, with the collapse of the US banks Washington Mutual and Lehman Brothers and other financial giants, the interbank and wholesale international markets virtually shut down for several months, and the lack of confidence among financial institutions began threatening the financing of commercial activities as well. The credit crunch accelerated the contraction of output, and both soon spread around the globe (Duménil and Lévy 2011, 40), including to Slovenia. Starting to contract in the last quarter of 2008, the GDP fell down by stunning 7.8% in 2009.

Figure 25 **Production indexes, Slovenia, 2007–2010, seasonally adjusted, 2005 = 100**



Source: OECD.

The decline of export-oriented production in the German core countries and the structuration of the Slovenian productive system into a dense network of suppliers provoked a sharp contraction of manufacturing, falling by over 25% between the last quarter of 2008 and the first quarter of the following year (see Figure 25). In fact, Slovenian manufacturing recorded one of the biggest declines, not only in the region but also among the OECD countries, because volumes of exported goods and services fell by around 20% (OECD 2011, 19). For Senjur (2012), such a decrease was also indicative of the loss of the exchange rate mechanism. The shock caused by a rapid switch in external demand could have been alleviated had Slovenia been able to resort to currency devaluation to ease pressures on exporters, as it often did in the past.

In addition, the weaknesses associated with the liberalisation of financial markets became visible very soon. After the drying up of money and capital markets, the profit strategy of the domestic banking sector abruptly changed and mainly focused on reducing foreign liabilities: between November 2008 and March 2009, Slovenian banks deleveraged by EUR 1.7 billion (Bank of Slovenia 2009, xiv). Highly indebted, the construction sector contracted even more sharply than manufacturing and fell by over 30% in the last quarter of 2008 (see Figure 25).

At the same time, despite emerging signs of caution, the Slovenian authorities did not introduce any preventive measures and followed, in this regard, the modest reaction of the EU authorities. "When the crisis became manifest in Europe in 2007–2008 in the form of heightened liquidity shortage and the threat of insolvency of major financial institutions with large US subprime exposure, joint action at the EU level was initially slow and uncoordinated" (Wigger 2015, 116). Because the emerging banking difficulties could be manageable at the level of member states, the only reaction to the general liquidity strain that shocked the European economy in late 2007 and early 2008 was made by the ECB; by providing significant amounts of liquidity to distressed banks, it helped maintain the surging storm at the level of a latent banking crisis. However, by bringing the world – and the European – financial system to the edge of collapse, the bankruptcy of Lehman Brothers pushed the EU authorities to step in (Keucheyan and Durand 2015, 33).

6.1.1.2. State interventionism for mitigating the crisis

In October 2008, the Eurozone governments made commitments to recapitalise banking institutions and to offer public guarantees for bank borrowing. This step was coordinated with the DG for Competition, which relieved constraints on state aid to financial institutions,[46] as well as with the ECB, which decided to supplement the role of the money market by providing unlimited liquidity at the fixed interest rate (Bank of Slovenia 2010a, 49). Just a month later, the EC removed the Maastricht ceiling on public finances and finance ministers coordinated their fiscal stimulus measures within the European Economic Recovery Plan (EERP) (Bieling and Lux 2014, 159). As a consequence, from very early on, the EC, this undemocratic body of controlling state aid *ex ante*, became "a de facto EU crisis-management authority" (Wigger 2015, 116), collaborating closely with the ECB.

In 2008 and 2009, the Slovenian government introduced two fiscal packages in the total value of 1.2% of GDP, comprising, among other things, subsidies for reduced hours and a reduction of tax obligations for the self-employed to boost investment. The state also issued unlimited guarantees on all deposits, secured the refinancing banks on international financial markets, and injected public money into the state-owned export and development bank (OECD 2009, 26, 2013, 23). In comparison to other countries, the initial quantity of injected public money

[46] Conceived as a temporarily measure, it was extended on a yearly basis and the seven Commission Communications, released between late 2008 and 2013, formed the regulatory framework for the approval of state aid (Taškar Beloglavec and Taškar Beloglavec 2014a, 41).

was rather low; the total amount of government resolution for banks, including guarantees, amounted to 6.73% of GDP (of which recapitalisation represented 0.7% of GDP), whereas the average amount across the EU was 12.76% of GDP (Bank of Slovenia 2015, 33). Because the banks were not greatly involved in risky, speculative investments and did not invest in foreign debt securities, the national authorities, together with the BS and the IMF, were convinced that the world financial turmoil would not undermine the stability of the domestic banking sector (Lah 2010, 73). At the same time, domestic banks started to pool a substantial amount of liquidity from the Eurosystem: from EUR 0.2 billion in November 2008, the size of the borrowed pool increased to more than EUR 4 billion by October 2009 (Bank of Slovenia 2009, xiii, 2010a, 51).

The emergency interventionism, orchestrated by Slovenia, the EC, and the ECB, succeeded in slowing down the contraction of loans. Although this mainly focused on external deleveraging, the banks continued their lending activity, albeit at a much smaller level (Bole 2012a, 15-16, Bank of Slovenia 2015, 20). The growth of loans to the non-banking sector, which practically came to a standstill in 2009 (0.6%), down from 18.2% in 2008, slightly resumed in 2010 and stood at 1.4% (Bank of Slovenia 2010a, 68). For Tajnikar and Došenović Bonča (2015, 753-54), the initial drop in GDP in Slovenia would have been even worse without “fiscal stabilisers” that alleviated the shock of plummeting external demand and financial sources on increasing unemployment, contracting investment, and final demand.

What is more, given the structural interdependencies of the European economies, the EERP and emergency banking policies also helped Slovenian manufacturing recover relatively quickly. The injections of public money into banks prevented the transformation of national banking problems into a fully-blown banking crisis at the EU level (Keucheyan and Durand 2015). Germany and France were able to launch a state-sponsored program for boosting car production, which in turn boosted Slovenian industry as well (Myant and Drahokoupil 2011, 319). Exports resumed as early as in 2010, going up by over 10% (SI-STAT), and pulled the economy out of the first slump (Kržan 2014, 334).

6.1.1.3. *Disregarded corporate-banking debt and massive layoffs*

The reaction of the European and Slovenian elites after the fall of Lehman Brothers should not be seen as a sign of a policy shift in favour of more Keynesian-like policies and state-led recovery. At least in Slovenia, the fiscal packages introduced were rather insignificant with respect to rapidly rising unemployment as well as the increasing instability of corporate and banking sectors.

Between 2007 and 2010, almost 35,000 jobs (16% of total sectorial employment) were lost in manufacturing. During the first two years of the crisis, the level of employment in this sector fell below the 2004 level. Jobs were reduced especially in technologically less advanced firms; in the clothing industry, the number of workers halved. The wood and furniture industry, machinery and metals manufacturing, and electrical appliances each accounted for 2,000 lost jobs (SI-STAT). Although the layoffs in construction only started in 2008, they were no less substantial. According to the official number, employment contracted by 11% between 2008 and 2010, accounting for about 9,500 jobs (SI-STAT). These figures should, however, be read with caution; in addition to relying on foreign loans, the construction boom during the 2000s also relied substantially on cheap immigrant workers, most of whom were not registered at the employment office. Nonetheless, in terms of social groups, it was young people, mostly engaged in precarious jobs that were particularly hit. The expanding youth unemployment actually contributed a major share to the rising unemployment rate, which rose from 4.4% to 7.3% between 2008 and 2010 (Stanojević 2014, 108, SI-STAT).

Moreover, the positive assessment mentioned above on the Slovenian banking system significantly downplayed the cross-sectorial character of indebtedness and related risks faced by the Slovenian economy (cf. Kržan 2013, 137). The banks' portfolios were dangerously exposed to corporate failure and firms' capacities to finance their obligations. The assets of highly indebted firms, such as construction companies, financial holdings, and firms undergoing LBOs, quickly devaluated and built up the corporate debt-to-equity ratio: in 2008 this ratio jumped to 146% (Kržan 2014, 335, Bank of Slovenia 2016a, 15); for comparison, at that time the ratio of the Eurozone average stood at 105% (OECD 2011, 25). In 2007, domestic banks held almost two-thirds of the total debt of Slovenian enterprises (63.6%) compared to 4.5% held by foreign banks (Bank of Slovenia 2008b, 37).

Thus, the character of Slovenian state interventionism echoed the hierarchy of norms and political concerns that dominated at the EU level. In contrast to meetings between government representatives, the EU Commission, and bankers, "the cancellation of the participation of the heads of state in the EU Jobs Summit in Prague on 7 May 2009 left 'the impression that unemployment [was] a lower-order issue'" (Keucheyan and Durand 2015, 34).

6.1.2. Exacerbation of the crisis under the New European Economic Governance (2011–2012)

The upward revision of the formal figures of the Greek public debt in late 2009 triggered another stage of the crisis not only at the EU level, but also in Slovenia. Ascertaining that "the time has come to draw far reaching lessons concerning the way economic policies are dealt with" (EU Commission 2010), the EC remodelled the European institutional architecture, combining top-down supervision within the European Semester cycle with the promotion of austerity-based policies and structural reforms aimed at improving price competitiveness. In contrast to the inflation of regulatory changes that only further restrained the scope for relatively autonomous policy-making at the national level, the pillars of the monetary and competition regimes remained unchanged. By disregarding the real sources of the crisis in Slovenia, as well as the structural interdependencies between the European economies, such an anti-crisis regime only prolonged and exacerbated the crisis hardship and transformed its character: after 2011, the crises of the banking sector and sovereign debt came at the forefront.

6.1.2.1. *DG-ECFIN masters economic interdependence*

> Withdrawal of the fiscal stimulus, accompanied by structural fiscal consolidation measures, would improve the conditions for price stability and so allow for an appropriate macroeconomic policy mix. Ambitious reforms of labour, product and financial markets are essential and should be an integral part of a consolidated exit strategy. (EU Commission 2009, 9)

This was the statement, made as early as in October 2009, by Marco Buti, the director of the DG-ECFIN, in the Quarterly Report on the Euro Area. Public deficit and debts, mostly built up by the socialisation of private losses in the earlier period of the crisis, now became the central preoccupation of the leading EU authorities (Bieling 2015, 103). The exit strategy, established "in a close collaboration with market 'experts' and representatives of financial and non-financial (trans-)national capital" (Bieling 2015, 102) – took shape in the middle of the following year, when Greece and the Troika signed the first agreement on punitive rates and when the spreads on Irish and Portuguese bonds started to surge as well (cf. Keucheyan and Durand 2015, 34). Troubled by the spreading peripheral sovereign debt crisis, in May 2010 the EC announced its plan for "mastering economic interdependence" (EU Commission

2010), known as the NEEG. This plan "empowered" the EU executive with two new policing instruments (Schulten and Müller 2015, 337).

First, the European Financial Stability Mechanism (EFSM, becoming in 2013 the European Stability Mechanism, ESM) was a legally binding financial assistance instrument based on strict conditionality and the Memoranda of Understanding that the applying countries signed with the Troika (i.e., the EC, the ECB, and the IMF). Second – and this instrument is important for the developments in Slovenia – the macroeconomic policy and regulatory frameworks of all member countries became annually coordinated *ex ante* and monitored *ex post* within the European Semester framework, introduced in late 2010 (Schulten and Müller 2015: 333).

In December 2011, this system became more sophisticated with the Six-pack provisions, which introduced an automatic procedure for imposing fiscal sanctions, already defined by the TSG, and established the Macroeconomic Imbalances Procedures (MIP). Integrated into the new Alert Mechanism Reports, the MIP was a warning system based on a "scoreboard" of macroeconomic indicators (Niechoj 2015, 159). When the EC estimated that a country was experiencing imbalances, it carried out an in-depth review to determine the measures to be undertaken. However, identifying what constituted a macroeconomic imbalance remained the authority of the EC (DC-ECFIN), whereas the council and the EU Parliament have only been accorded a right to comment (Oberndorfer 2015, 196). Moreover, unit labour costs have been incorporated in the new "scoreboard" that has also fixed the level of allowed wage and labour cost developments (Schulten and Müller 2015, 334).

In addition, fiscal conservatism was placed at the level of a legal and even constitutional norm. In March 2012, national governments signed the Treaty on Stability, Coordination, and Governance in the Economic and Monetary Union (TSCG), which demanded the legislation and/or constitutionalisation of the budgetary rules of the TSG. Moreover, the European Court of Justice was accorded the right to issue a fine to a country that did not comply with the requirements (Keucheyan and Durand 2015, 43).

The ECB also expanded its authority in financial supervision by chairing the general board of the European Systemic Risk Board, established in 2010, in order to tighten the European supervision of the banking system (Keucheyan and Durand 2015, 44). Likewise, it was also a member of the Troika and on several occasions used its financial monopoly to push forward the reform packages.[47] In contrast, although it continued to provide liquidity, the central European banking authority remained rather reluctant in easing the burden of troubled countries (Niechoj 2015, 159). For Lapavitsas, Mariolis, and Gavrielides (2017, 29), a modest increase in the bank's balance sheets was related to "the legal requirement imposed on the ECB not to purchase public bonds, since such action would have potentially allowed one state to finance the debt of another within the EMU, even indirectly".

In terms of economic policy, the NEEG emulated the German accumulation and regulation regime, combining reforms oriented toward price competitiveness with fiscal austerity and export-led growth (Boyer 2012, Flassbeck and Lapavitsas 2015, 143). In fact, from the very beginning, Germany, whose hegemonic position was pending on the (in)stability of the peripheral countries, assumed the dominant place in crisis policy-making at the EU level. Because "the ECB [played] the role of lender of the last resort for the financial sector, but – different from the US Federal Reserve and the Bank of England – not for the government sector" (Stockhammer and Köhler 2015, 43), such a policy design exposed ailing countries to speculative financial markets.

In terms of macroeconomic stability, the launching of the first European Semester cycle under the NEEG provisions in 2010 drove the entire Eurozone region toward the second recession, bottoming out in 2012, when average GDP growth fell by almost 1%. The slowing down of recovery in 2011, followed by a further deterioration of the external situation in 2012, immediately impacted Slovenian manufacturers: after increasing on average by over 8.5% in 2010 and 2011, exports grew by less than 1.9% in the following two years (SI-STAT). Yet, whereas it is true that the dependency on exports created a channel for transmitting the global crisis in Slovenia, after 2010 it was austerity measures and the ECB's status that exposed the Slovenian economy to increased risks.

[47] For example, in November 2010, the ECB threatened to cut off emergency funding from the Irish banking system to force the government to apply for the Troika bailout (Taylor 2014). In 2013, Cyprus's most vulnerable banks were threatened with having liquidity cut off (Flassbeck and Lapavitsas 2015, 144-45). In 2015, the ECB frequently intervened in negotiations between the Greek government and its creditors by denying the Greek banks access to the liquidity tap, by lowering the total amount of emergency funds that the banks could access, and by threating to cut off all emergency liquidity should the referendum vote turn against the austerity programme proposed by international creditors (Renaud 2016).

6.1.2.2. The austerity spiral of depressed domestic demand and the banking crisis

The interventions by the Slovenian government during the first years of the crisis built up a public deficit that increased from a modest 0.1% of GDP in 2007 to almost 5.6% in 2010. With the launching of the first European Semester cycle and the entry of the country into the Excessive Deficit Procedure in 2010, the Slovenian authorities moved to "expansionary austerity", as noted by (Senjur 2012, 14) – all ruling coalitions, regardless of their formal political colours, followed the reform blueprint that the first "crisis" government set in the Slovenian Exit Strategy 2010–13 (see also the next section). The dominant economic policy was built on erroneous assumptions that the economic meltdown was caused by lax fiscal policy and insufficient price competitiveness (Senjur 2012). Because "[c]uts in public expenditure at a time of high uncertainty among firms about demand and high uncertainty among households about income generally lead the private sector to reduce spending" (Flassbeck and Lapavitsas 2015, 143), the austerity-based policy prolonged instead of reducing the crisis hardship (cf. Boyer 2012, Tajnikar and Došenović Bonča 2015).

As can be seen from Figure 16 above, it was mostly the negative effects of public spending cuts in times of crisis that dragged the Slovenian economy down in 2011 and 2012. In that year, the austerity drive contracted private and government consumption[48] to such an extent that it even annihilated the positive effects of the renewed foreign demand for Slovenian products. GDP went down by 2.7%, that is, almost two percentage points lower than in the euro area (Tajnikar and Došenović Bonča 2015). After emergency interventionism slowed down the collapse of investment, which fell on average by four percentage points in 2010 and 2011, the austerity drive contributed to a second dip in investment, which contracted by over 17% in 2012 (SI-STAT).

Such a deep meltdown was also related to the restrictive drive of the BS (Bole 2012b, 15-16). In mid-2010, the central banking regulatory imposed stricter capital standards on banks, following the direction of the Basel III. Banks reacted by further restraining their lending activity: the already sluggish loan growth turned negative by February 2011 and after that went down each year (OECD 2015, 23).

[48] In 2012, private and government consumption fell by 2.9% and 1.9%, respectively, in real terms (SI-STAT).

The banking "strike" further destabilised the financial situation of the corporate sector, especially for many inward-oriented firms, which were already strongly hit by weakened domestic demand. The difficulties in reprogramming the debts of many firms, also those operating with profits, acted in turn like a boomerang on banks' portfolios and triggered massive growth of nonperforming loans (NPLs) (Vozel 2013, 11, Kržan 2014, 334). In 2012, when the NPLs peaked at 15% of total loans and represented almost a fifth of the total economic output, according to the OECD (2013, 16) the Slovenian banking system was among the most undermined ones in the OECD countries with respect to the extent of the deterioration of portfolios.

To stabilise the national banking sector and help banks fulfil increased capital requirements, the state had to recapitalise the banks. After 2010, injections of public money into mostly state-owned banks (2010, 2012) and taking over debts from certain public companies (2011) were the main factors behind increased state expenditures (IMAD 2012, 7). By 2011, public deficit reached its highest level since the mid-1990s, when it amounted to 6.7% of GDP. Note that this level was not only related to the mismatch between crisis-induced shrinking revenues and increasing expenditures. Bole (2012a, 13) claims that in 2012 "three-quarters of the structural deficit in public finance (around EUR 800 million), which represented a quarter of the public debt in cumulative terms, was related to the reduction of taxes in favour of capital from 2007." In other words, the public debt burden was mostly related to the crisis-related injection of public money into banks, the past cuts in taxes, and the rising interest rates.

Nonetheless, the destabilisation of public finances per se could not explain why Slovenia found itself in the middle of the sovereign debt turmoil that shocked most of the Eurozone periphery. After all, as late as 2012, the country's public debt, standing at about 54% of GDP, was still below the Maastricht criteria. The specific institutional architecture of the EMU regime should be taken into account.

6.1.2.3. *The ECB's spiral of the sovereign debt crisis*

Because Slovenia no longer had control over its monetary policy nor a "normal" central bank, the refinancing of public debt became dependent on international financial markets (Bole 2012a, 7, 11). In contrast to the money market, which is unified at the EU level, in the government bond market each European country faced particular supply and demand conditions, as well as credit ratings, that determined the level and costs of borrowing

(Lapavitsas 2012, 56). In addition, between 2010 and 2012, debt refinancing "in the Euro area [was] amplified by contagion effects as the credibility of one country's sovereign debt calls into question the quality of another country's assets" (Stockhammer 2016, 9).

Indeed, once the financial markets lost confidence in the Eurozone countries, the financing of debt seriously burdened the Slovenian economy. After the unfolding of the sovereign debt crisis in the Eurozone "south" and in Ireland, yields on Slovenian long-term government bonds over benchmarked German bonds started to increase sharply in the second half of 2011; in 2012, the growing crisis in Italy and Spain made the spreads gradually increase again, and by the middle of summer required yields came close to 7.4% (Kržan 2014, 336, Bank of Slovenia 2012, 18-19, 2013a, 18-19). Note that Slovenia found itself in the middle of the Eurozone turmoil even though the potential burden of public finances, measured in terms of total indebtedness of the private and public sector, was about half that of the Eurozone average Bole (2012a, 7-8, 13).

The crisis-triggered divide between those European economies facing debt servicing problems and others that escaped the sovereign debt crisis was therefore mainly indicative of the fact that past "[c]redit boom and public deficits were compensating mechanisms for the structural productive imbalances generated by the euro" (Boyer 2012, 290) and that private losses were socialised by countries with no central banking security (cf. Niechoj 2015, 158). In fact, by late 2012, it became clear not only the pre-crisis convergence of the Slovenian economy has has been limited and risky, but also that the country's macroeconomic faith was to a large extent dependent on decisions made abroad.

6.1.3. Draghi's "whatever it takes" and the pacification of peripheral turmoil (2013–2014)

By late 2012, the Eurozone turmoil gained another dimension. The pro-cyclical effects of the austerity-based policy finally became a threat to what it was supposed to protect; namely, the stability of euro. In July 2012, Mario Draghi, the president of the ECB, declared that "[w]ithin our mandate, the ECB is ready to do whatever it takes to preserve the euro. And believe me, it will be enough" (Moulds 2012). He also added that "the only way out of this crisis is to have more Europe. This means that much more of what is national sovereignty is going to be exercised at supranational level [*sic*]" (Moulds 2012). Draghi's speech announced a shift in the ECB's status as well as a new set of arrangements that, it is true, allowed for the pacification of peripheral turmoil in Slovenia. However, they did this by means of a further shrinking of Slovenian control over domestic activity and heightened dependency on the economic prospects in German core countries.

6.1.3.1. 2013 and the peak of Eurozone turmoil in Slovenia

In terms of socioeconomic and financial indicators, the Eurozone crisis in Slovenia peaked in 2013. The total losses of non-financial corporations reached EUR 2.2 billion (Bank of Slovenia 2014a, 24): whereas by 2011 all main firms in construction had already gone bankrupt (Kržan 2014, 336), sluggish external demand, weak domestic demand, and low purchasing power continued to burden firms in manufacturing, wholesale, and retail trade. In fact, almost a third of the 2,672 bankruptcy proceedings initiated against firms after 2007 took place in 2013 (Bank of Slovenia 2014a, 25-26).

The unemployment rate more than doubled from the pre-crisis period. Exceeding 10% in 2013, it reached its highest level after the early 1990s crisis. Three years of austerity-based stabilisation programs expanded the trends already present at the beginning of the crisis. After 2007, employment in manufacturing fell by over a fifth (about 45,869 jobs); in construction, two-fifths of jobs (about 24,140) were lost between 2008 and 2013. In terms of age, youth remained the biggest victim of the crisis: in early 2013, one out of four people between ages 15 and 24 was unemployed. In terms of regions, the situation of the already poor northeast, where some of the largest labour-intensive firms were concentrated, worsened further: in the Mura Valley, the unemployment rate was close to 20%. Compared to the pre-crisis period, the at-risk-of-poverty rate went up by over two percentage points by 2013, when about 290,000 people had incomes below the at-risk-of-poverty threshold (IMAD 2016, 147).

These developments were not only related to the pro-cyclical austerity drive, but also to the single-market restrictions on state aid to firms. The EU "effectively ruled out help to individual enterprises or sectors [. This] marked a striking difference from Russia and Ukraine, where much of the anti-crisis policy took the form of help to particular firms (as well as from the USA)" (Myant, Drahokoupil, and Lesay 2013, 389).

Dysfunctional in resolving the indebtedness of the corporate sector, the NEEG regime was also dysfunctional in easing the deterioration of Slovenian banks' portfolios – peaking at 18% of total loans in mid-2013, the amount of NPLs outstanding exceeded EUR 7 billion in the first half of the year (OECD 2015, 23). Despite the 2012 recapitalisation at a value of 3.7% of GDP, the banks remained undercapitalised.

After the Cyprus crisis in early 2013, the yields on Slovenian government bonds spiked close to 7% again, whereas the public debt was two and a half times higher than in 2007 in relative terms. Slovenia found itself on a list of potential candidate countries for financial assistance created within the new OMT. In fact, for Tajnikar and Došenović Bonča (2015, 757), by 2013, Slovenia found itself "in a typical crisis of fast indebtedness of the government sector and negative economic growth. This has created conditions that have been proper for almost all countries of the European south." The Slovenian government did succeed in recapitalising banks without an external financial package, but this should not obscure the fact that much of effective macroeconomic instruments and powers regulating the Slovenian political economy were in the hands of the two key actors of the Troika team, the ECB and the EC.

6.1.3.2. More liquidity for less state sovereignty

During the crisis, "the EU's policy package has not changed direction, but become […] more rigid and doctrinaire" (Stockhammer and Köhler 2015, 43). When the crisis of public debt in Greece threatened to undermine the other euro member states during the summer of 2012, the European policy authorities decided to heighten surveillance of the member states' macroeconomic policies and to modify the ECB's status.

Two important changes occurred at the level of the monetary regime. First, "since July 2012, banks have zero interest rates for their deposits at the ECB, the rationale for this being the reduction of the costs of credits and hence the stimulation of private investments" (Niechoj 2015, 159). After several years of a rather modest provision of liquidity, the ECB started to expand its balance sheets more substantially (Lapavitsas, Mariolis, and Gavrielides 2017, 29).[49] Second, the status of the ECB was changed: the mechanism of Outright Monetary Transactions (OMT) allowed the European central banking authority to purchase government

[49] From about EUR 2 trillion in 2011, the ECB's balance sheet expanded up to 3 trillion in 2012–13. Note that for Lapavitsas, Mariolis, and Gavrielides (2017, 30) "[t]he real shift toward QE, however, occurred in March 2015, with the Public Sector Purchase Programme, as recession and stagnation gradually pervaded the economy of the Eurozone. Mario Draghi has embarked on a public-asset-buying programme, which has again stretched the balance sheet of the ECB from nearly 2tr in 2014 (to which it had by then declined) to 3tr in 2016".

bonds on the secondary market in an unlimited amount, and to assume “at least informally, the role of the lender of last resort for public debt” (Niechoj 2015). The ECB’s guarantee remained, however, conditional and obliged the applying countries to submit to the reform prescriptions endorsed by other more or less binding financial assistance programs (Stockhammer and Köhler 2015, 43). What is more, at the peak of the crisis in Cyprus in March and April 2013, “the ECB forced the Cyprus government to accept the conditionality demanded by the EU, at the threat of withholding liquidity to the country’s most vulnerable banks. This was a grave violation of the putative role of the ECB in the EMU, which is supposed to act as the central bank of all member states” (Flassbeck and Lapavitsas 2015, 144).

The ECB’s intervention during the Cyprus crisis should also be seen in light of launching a discussion over the banking union initiated by the EC in early 2012. To stabilise the European banking system and to resolve the problem of cross-border lending, the banking union would set a common recovery and resolution procedure for ailing banks. For Toporowski (2015) this initiative has been just another step in the reinforcement of the political powers of the ECB. There is “also a desire to prevent governments from backing the ‘failed business models’ of their national banks […] This later effort to remove government as a lender of last resort can only end up politicizing the European Central Bank even further through its proposed bank resolution mechanism” (Toporowski 2015, 58).

In May 2013, the European Semester cycle became more sophisticated through the adoption of the so-called Two-pack. The Two-pack reinforced the surveillance of national budgets by allowing the Commission to examine and give an opinion on each of the draft budgets. If the proposed budget is not compliant with the TSGC, a member country is required to submit a revised plan (EU Commission 2013b). For Oberndorfer (2015, 201), the Two-pack is “an attempt to put the previous role of the Commission within the framework of the Troika on a legal basis […] the opinion is a non-binding ‘legal act’ of the Union, but the Commission can in future exercise considerable discursive pressure if it ‘rejects’ the draft budget of a member state as insufficient.”

6.1.3.3. Externally-led and internally depressed economic stabilisation

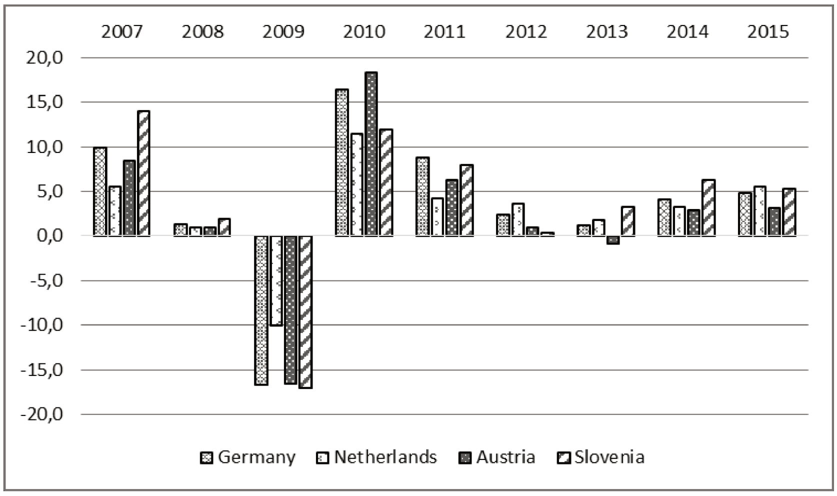
The changes mentioned above reinforced the role of the European executive and central bank for pacifying the crisis in Slovenia through three channels. First, the launching of the Two-pack procedure, coinciding with the decision of the EC that the country was experiencing excessive macroeconomic imbalances (EU Commission 2012), placed Slovenian macroeconomic policies, especially state aid, under the heightened control of the EU executive (Council of the EU 2013, EU Commission 2013a). This means that the Slovenian government was allowed to recapitalise the main domestic banks at a value of 10.3% of GDP (IMAD 2014b, 23) only in exchange for strict commitments regarding privatisation of the banking sector and its restructuring (see the next section). With such a massive injection of public money into banks at the end of 2013, the country ranked sixth in the EU in terms of state aid allocated between 2008 and 2013: only Ireland, Greece, Cyprus, Spain, and Belgium spent more on bank stabilisation during these years (IMAD 2016, 101). Moreover, together with the costs related to the establishment of a "bad bank", recapitalisation fuelled public debt, which amounted to almost 72% of GDP by the end of 2013.

After the Cyprus crisis, Slovenia again faced pressures from financial markets: the spread on Slovenian government bonds remained above 6% during most of the second half of 2013 due to the lasting and uncertain process regarding the recapitalisation of banks (Kržan 2014, 336, Bank of Slovenia 2012, 18-19, 2013a, 18-19). However, starting in early 2013, the stabilisation of the banking sector and the ECB's status shift succeeded in calming financial markets, and the required yields on Slovenian governments bonds fell to 2.1% at the end of 2014 (Bank of Slovenia 2013a, 18).

There was another channel through which the ECB impacted the developments in Slovenia. According to Lapavitsas, Mariolis, and Gavrielides (2017, 19, 30), the ECB's provision of cheaper liquidity had limited impacts on aggregate demand among the European economies; in a context of dampened exceptions and weak domestic demand, banks were rather unwilling to expand their loans to the private sector. A more expansionary monetary policy was in fact advantageous especially for Germany, which could, in addition, take advantage of the fall in the exchange rate of the euro relative to the Chinese yuan and US dollar to boost its export-oriented international production network.

As can be observed from Figure 26, exports from the key countries of the German core started to improve after 2013. Greatly dependent on the economic dynamics in these countries, Slovenian exports resumed as well. In fact, in 2013, Slovenia recorded its first surplus (EUR 0.7 billion) on account of goods, which pulled the country out of its second slump.

Figure 26 **Exports of goods, 2007–2015, German core countries and Slovenia, change on previous period, %**



Note: Changes refers to chain linked volumes.
Source: Eurostat.

The resumption of GDP growth in 2014 and 2015 was, however, relatively fragile and based on a precarious improvement of domestic demand (Bole 2016, 17-22, IMF 2016, 6-7): when the demand for Slovenian goods decreased in 2015, GDP growth decreased as well, falling from 3.1% in 2014 to 2.3% in 2015. The economic crisis in Slovenia had been pacified, but it was far from resolved. This issue is addressed in the last section of this chapter (6.3).

Conclusion

This section has followed the suggestion of Bieling (2015, 101), claiming that with respect to the European crisis after 2007–2008 one should distinguish between the factors leading to the outbreak of the crisis and the factors that prolonged it. It has been argued that the dependency on foreign demand and interest-bearing capital were the main channels of transmitting the global crisis into Slovenia, whereas the form of the crisis was related to the overall design of the EMU regime. Or, if one reverses the relational direction of EU/EMU state-building, the double-dip recession and the outbreak of the banking crisis and the sovereign debt crisis after 2010 were related to the fact that the adoption of the NEEG only further aggravated the dysfunctional remaking of Slovenia's macroeconomic arrangements and made the country dependent on decisions from abroad.

The coordinated and monitored implementation of austerity measures meant that the regulatory weaknesses already inherited, related to the uniform and centralised monetary policy, loss of exchange rate mechanism, and state aid policy, were reinforced with the new ones. Together, they seriously undermined Slovenia's macroeconomic ability to counter the crisis by stabilising or improving domestic demand with a deficit-spending policy. As was seen, it was depressed domestic demand that drove the Slovenian economy into the second slump. Moreover, given the pre-crisis structures and patterns of accumulation, the crisis in Slovenia called for more fiscal expansionary policies and not fewer. The export-led economic policy, emulating the German growth regime, could only aggravate the inherited problems of corporate-banking debt and led the domestic banking system into dire straits.

Nonetheless, the austerity-based one-size-fits-all economic policy, indifferent to the special features of domestic regulatory and accumulation regimes, as well as of their interdependencies at the EU level, were not the only factors that shaped the form of the crisis in Slovenia. The interplay of pro-cyclical fiscal and competition regimes with the monetary one should be brought forward. The sovereign debt crisis in Slovenia was related to the loss of monetary sovereignty and the fact that the ECB, formally also the Slovenian central bank, did not use its instruments and powers to ease the economic hardship in Slovenia, but instead exposed it to the speculative attacks and pressures of financial markets. These attenuated only when the ECB started to buy government bonds on the secondary markets and switched toward more generous provision of liquidity.

Such an argument challenges the existing accounts that explain the dynamics of the Slovenian economic and financial crisis, mainly in terms of pre-crisis patterns of accumulation and weakness of (economic) international integration; therefore, they tend to downplay the pro-cyclical role of the austerity-based NEEG and the specific design of the EMU that exposed the ailed countries to pressures from financial markets (Guardiancich 2016, 223-27, 246-51, Myant and Drahokoupil 2012, Bohle and Greskovits 2012). Dependency on external demand and financial sources were factors that shaped the form of the crisis outbreak, but were less important for the prolonging of the crisis and its extension on other sectors. As it has been shown, in a context of depressed domestic demand, dependency on manufactured goods exports and subordinated integration into the German export-oriented core production proved to be a factor of economic stability that actually led Slovenia out of the crisis.

More important is, however, that the prevailing studies downplay the crucial role of the dependent *political* integration of the Slovenian economy in the European structures and policy weaknesses related to the limited macroeconomic policy-making powers of the Slovenian state. The spiking yields on the Slovenian governments bonds were not so much related to the Slovenian pre-crisis accumulation pattern; they were indicative of the European core-periphery structures, the dysfunctional re-making of state arrangements during the country's accession in the EU/EMU regime and after the launching of the NEEG, as well as of the fact that the decisions taken at the European level mostly secured the narrow interests of financial and export-orientated faction of capital, as well as of the German core production machinery.

However, dysfunctional as it might be in terms of securing macroeconomic stability and resolving the crisis, the asymmetrical state-building under the NEEG was, at least in Slovenia, relatively "functional" in class terms. Much similar to the past experiences, a partial de-territorialisation of macroeconomic policy-making and its insulation from popular pressures anchored in domestic neo-corporatist bargaining structures and relations acted as powerful institutional instruments for overcoming domestic resistance.

6.2. A further re-making of neo-corporatism with bureaucratic Caesarism

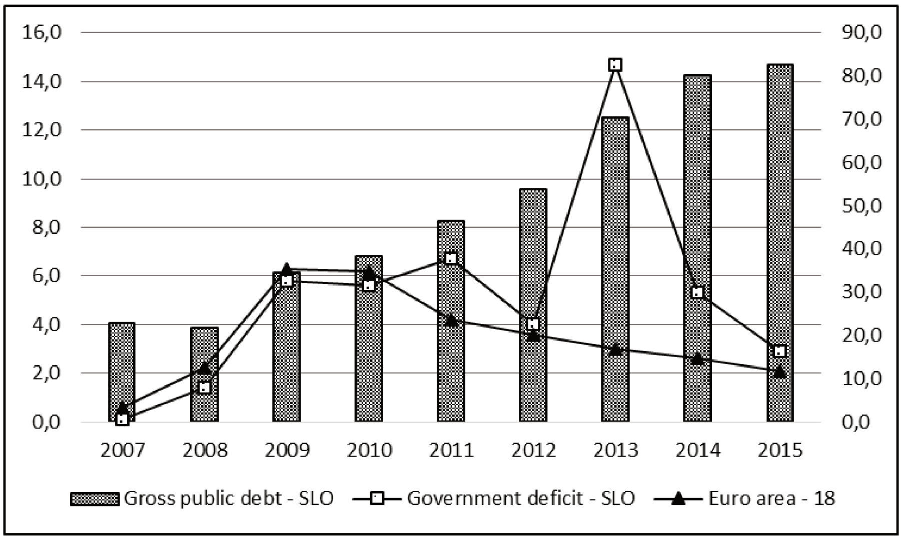
Discussing the turbulent years in the CEECs after the world crisis following 2007–08, (Bohle and Greskovits 2012, 224) emphasise that "[w]hether and at what cost various states have been able to manoeuvre through hard times has ultimately depended on the capacities of the political sphere, rather than merely on the specifics of crisis exposure". For this reason, the analysis now draws attention to the Slovenian political dynamics that shaped the unfolding of the Eurozone crisis and considers how the peculiar European crisis policy-making, discussed in the previous section, impacted the tendencies already presented for the uneven restructuring of the Slovenian state apparatuses, discussed in the previous chapter.

The reinforcement of the authoritarian dimension of the euro project has been one of the most striking features of European crisis policy-making. Thus, to better understand the mechanisms and modalities of the remodelling of the Slovenian social forces and institutions during the crisis, a new concept is introduced: bureaucratic Caesarism, proposed by Keucheyan and Durand (2015). Building on Gramsci's Prison Notebooks, they argue that the "overall political dynamic within the EU since 2007 points to a retrenchment of democracy in face of the rise of an original feature of 'authoritarianism' that we shall call, paraphrasing Gramsci, bureaucratic Caesarism" (Keucheyan and Durand 2015, 25).

Bureaucratic Caesarism embodies four main features. Beyond the fact that it refers to (1) the reinforcement of non-democratic institutions and practices in times of crisis, bureaucratic Caesarism is (2) an internally driven process "and not necessarily the consequence of an exogenous political event" (Keucheyan and Durand 2015), where (3) "an organisation, or coalition of organisations (public and/or private), 'becomes Caesar'" (Keucheyan and Durand 2015, 32). Finally, in addition to being non-charismatic and non-personal, the European variant of bureaucratic Caesarism also has (4) a regressive character because "the forces susceptible to operating a passage to a new, 'progressive', stage are prevented from acting" (Keucheyan and Durand 2015, 32). As such, the concept of bureaucratic Caesarism makes it possible to relate the political dynamics in Slovenia during the Eurozone crisis to the already observed pre-crisis trends in the asymmetrical remodelling of the Slovenian state apparatuses (see Section 5.1), and necessitates paying attention to new tendencies and their underlying rationale.

Thus, the basic argument defended here is that the political dynamics in Slovenia after the outbreak of the crisis were a constitutive part of European bureaucratic Caesarism. In Slovenia, bureaucratic Caesarism concretised in the form of accelerated integration of the state institutions into the European ensemble of ordoliberal and unelected state apparatuses; the government with the Ministry of Finance, the BS, and the Court of Justice and managers' organisations overtook the role of "Caesars". Whereas at the EU level, the unfolding of bureaucratic Caesarism sought to secure the interests of financial capital and elites, in Slovenia it was the strategy of the domestic ruling class to overcome the powerful resistance to labour devaluation. Finally, although the remaking of the Slovenian neo-corporatist institutions under bureaucratic Caesarism only further undermined the legitimacy of the state and its capacities to regulate domestic economic activity, it nevertheless produced powerful class effects throughout state institutions: the reshuffling of the internal hierarchy of state apparatuses, already observed prior to the crisis, accelerated further toward the subordination of the political and economic management of labour to the concerns of price competitiveness and monetary-financial stability.

Figure 27 **Public deficit and debt, Slovenia and the Euro area-18, 2007–2015, % of GDP**



Source: Eurostat

The fluctuating public finance illustrates well the pace of the changing class-power balance under bureaucratic Caesarism. As can be seen from Figure 27, after 2010 the dynamics of the Slovenian public finances diverged substantially from the Eurozone average. In contrast to development abroad, the public deficit in Slovenia even increased in 2011 before falling sharply in 2012 and exploding again in 2013, when banks were recapitalised. The following discussion adopts this periodisation (2008–2011, 2012, and 2013–14); indicative of the intensity of political hardship, those periods practically overlapped with the changes in government office. Indicative of the centrality of financial and fiscal concerns of the NEEG, the most intense struggles over the extent and the depth of authoritarian remaking took place around the restructuring of the public and banking sectors.

The remainder of the analysis is organised in three parts: first, a relative strength of popular opposition during the period of emergency interventionism is studied; the non-democratic modalities of the weakening of the opposition against austerity are explored in the second part; and, finally, an account of the bureaucratic-Caesarist aspects of banking restructuring is provided.

6.2.1. Labour opposition to devaluation and the Slovenian Exit Strategy (2009–2011)

Bieling and Lux (2014, 160) argue that the emergency state interventionism characterising the initial period of European crisis policy-making allowed trade unions to gain some political and institutional influence and to push for a more active industrial and labour market policy at the national level. In Slovenia too, the policies to ease pressures on employment when the crisis struck were significantly shaped by the trade unions' pressures. However, despite a significant legacy of corporatist policy-making and the fact that a centre-left coalition held power, anything close to "a tripartite management of acute crisis processes" (Bieling and Lux 2014, 160) emerged. Quite the opposite, the period of emergency interventionism was shaped by an acute struggle over the main adjustment mechanism, which remained under the control of domestic authorities, i.e. a downward labour market adjustment or so-called internal devaluation. Faced with undermined political legitimacy, a strong opposition from labour, and limited capacities to counter the crisis and to cede to popular demands, the Slovenian political authorities and ruling elites eagerly participated in the European orchestration of the NEEG and "imported" its policy prescriptions. Despite a full set of announced "anti-crisis" measures, the Slovenian Exit Strategy 2010–2013, prepared by the government as a part of the first European Semester cycle, was not about exiting from the economic crisis; instead, it announced another exit of domestic political authorities from territorialised (formally) democratic constituencies and domestically anchored policy-making.

6.2.1.1. The outbreak of the crisis and minimum wage increase

The plummeting GDP in late 2008 and early 2009 acted as a detonator that brought all of the contradictions of the Slovenian post-socialist transition to the surface; the legitimacy of all institutions that underwrote the development of peripheral capitalism was undermined. To give few examples, the liquidity crunch brought an end to the process of concentration of power and ownership under the MLBs. Large conglomerates and financial holdings, such as "Bavčar's" Instrabenz, "Zidar's" SCT, "Šrot's" Infoholding–Pivovarna Laško, and "Kordež's" Merkur, to mention just the most significant ones (RTVSLO 2010), now became for the public the symbols "of everything that went wrong with privatisation" (Cirman 2011). In the media, clientalism and corruption and "tycoons" became associated with the Slovenian "success story" and "the collapse of national capitalism" (Voh Boštic 2013).

There was also the downturn of Mura, the "Slovenian General Motors", as Mladina's columnist (Kovač 2009) has defined it. The bankruptcy of the main textile exporter, a supplier of Hugo Boss, was symbolic for what Drenovec (2013) succinctly described as the collapse of the Slovenian (post-)Fordist left political elites (see also Močnik 2010): 2,600 jobs were lost and the entire region was affected: by the end of 2009, the unemployment rate of the already poor Mura Valley reached 21% (Damijan blog 2012). By 2010, it became clear that the highest burden of the defensive state industrial policy, the loss of the exchange rate mechanism, and state aid to firms was borne by those layers of the working class, by those manufacturing sectors, and by those regions that were the most combatant ones during the years of systemic change and the imposition of shock therapy (cf. Močnik 2010, Senjur 2012, 2009; see also Sections 5.3.1 and 5.3.2).

However, the outbreak of the crisis also revealed the instrumental role of the EU/EMU regime in domestic power struggles and the fact that the national elites and capital class in Slovenia, together with their counterparts from many other European countries, "used the European integration to undermine, in their view, excessively corporatist and Keynesian (national) states" (Stockhammer and Köhler 2015, 44). The governor of the BS clearly explained the TINA adjustment option created by the EMU-reshaped Slovenian state apparatuses: "By entering the Eurozone, Slovenia fixed the exchange rate [...] Our economy is an open one and if we are not competitive we will not export. Domestic prices have to be at a level that will promote exports: either we reduce social contributions and taxes, or we decrease nominal wages in line with the competition" (STA 2009).

Indicative of the long-standing cross-class coalition between the managers from most advanced export-oriented firms and political elites, the first "crisis" government, led by the left-centre coalition under Borut Pahor, was very reluctant in introducing pro-employment measures defined by the EERP. Side-lining the demands of employers, Matej Lahovnik, the minister of the economy, strongly opposed subsidising reduced working hours and reducing mass layoffs. Instead, he promoted tax exemptions and the reduction of employers' social security contributions, arguing that this would "have swifter effects and demand less bureaucracy" (Marn 2009b). In fact, the minister clearly admitted that he accepted subsidising reduced working hours only after "stubbornness of the trade unions" (Marn 2009b).

This downward adjustment of the labour market and wage institutions, legitimised behind a technical and depoliticised discourse of TINA, was *again* faced with significant resistance from below; however, in contrast to the early 1990s, the revolt was initiated by workers from one of the most profitable export-oriented firms and was *also* addressed against the trade unions and their role in work intensification and economic liberalisation. In September 2009, workers at the home-grown company MNC, specialising in household appliances, held a wildcat strike that literally shook the entire establishment of the pro-European corporatist compromise (Stanojević 2015, 409).

Gorenje was the second most important exporter at that time – its employees, predominantly female, were among the least paid in the country.[50] After receiving only partial salaries for several months, the workers stopped the production and held a protest in front of the main entrance: "[t]he chairman of the managing board […] and the president of the Association of Free Trade Unions of Slovenia […] were received with loud whistles and shouts of 'Thieves, thieves!', whereas the enterprise unions were judged as being more favourable to management

[50] In 2009, production workers' monthly salary stood at EUR 500 net, whereas the poverty threshold was at EUR 593 in 2009. Those in R&D were only slightly better off, earning EUR 1000 net on average (Marn 2009a).

than to the workers, whose interests they were supposed to defend" (Marn 2009a). In fact, the protest was directed not only against management and national and enterprise unions, but also "against the government / politics in general. This triggered a delegitimising wave that was the first early sign of the intensification of the political and economic crisis in Slovenia" (Stanojević 2015, 409).

The Gorenje strike also had a strong knock-on effect on many other enterprises (Stanojević and Klaric 2013, 224). Faced with falling membership, the AFTUS decided to rebuild its undermined legitimacy by redirecting fragmented struggles into a common action and held a massive rally in November 2009 under the moto "For decent pay and a safe old wage". "The government reacted with a series of fire-extinguishing measures [and] opted for [an] increase in the minimum wage […] along with provisions focused on interim support for companies and redundant workers" (Stanojević and Klaric 2013, 224). The minimum wage rise of almost 23% together with its automatic yearly indexation was unprecedented and "brought the ratio between the minimal wage and average monthly earnings to one of the highest in the EU" (Bembič and Stanojević 2015, 7).

It is against the background of struggles over the legitimacy of state institutions and class power balance that one should consider the participation of the Slovenian leaders the European orchestration of the NEEG. The austerity-based Slovenian Exit Strategy 2010–2013, together with the entire supervision and coordination of macroeconomic policy under the European semester, did not lead Slovenia out of the crisis. Instead, it acted as a new instrument for breaking down popular resistance to labour devaluation and the further transformation of state apparatuses in favour of a rule-based and pro-market interventionism.

6.2.1.2. Unilateral decision-making and trade unions' mobilisation

To reduce public deficit in line with the Excessive Deficit Procedure, the government prepared an "ambitious fiscal adjustment" program, as the OECD (2013, 11) put it, embodied in the Slovenian Exit Strategy 2010–13. The strategy comprised the liberalisation of the pension system and privatisation of state-owned enterprises, the reorganisation of social security in line with workfare principles, and a mini-jobs reform tailored to the German system (Government of the Republic of Slovenia 2010, 10-18, Stanojević and Klaric 2013, 224). At the same time, following the advice of the IMF and the OECD pointing to the "importance of clear rules", the government also intended to introduce a fiscal rule as well as reduce taxes on labour (Government of the Republic of Slovenia 2010, 6, 25).

The exit therefore had clear class connotations masked behind the technical term of "fiscal consolidation": the proposed adjustments were regressive and privileged higher-income social groups while directly affecting the living standard of the working class with low and middle incomes (Senjur 2012, 15-16). Moreover, the introductory part of the Exit Strategy clearly announced that the Slovenian policy-making process and structures would be further reshuffled: "Recovery will be slow; it will take long and demand radical structural changes. New economic and financial balances will be established on different planes and in other ways than before the crisis" (Government of the Republic of Slovenia 2010, 2).

When raising the minimum wage, the government hoped to gain the unions' approval for reforms to the pension system and labour market (Stanojević, Kanjuo Mrčela, and Breznik 2016, 5). Overridden by the workers, the unions rejected the government's proposal. Claiming that "we should not wait for the Greek scenario" (Mekina 2010), the government unilaterally implemented both measures (Stanojević and Klaric 2013, Guardiancich 2012, 395). The public and private sector unions reacted resolutely: together with students, they launched a referendum campaign against the structural reforms and organised a joint protest, ending in violent confrontations between police and (younger) protestors. In addition, at the end of September 2010, the public sector trade unions organised the largest strike in the history of independent Slovenia, joined by around 80,000 participants (Dnevnik 2012a).

Considering that "the financial crisis in Slovenia reached extreme levels and […] the withdrawal of the reform could prevent the country from exercising its duty to act as a social country and to meet the Maastricht Criteria" (Government Communication Office 2011), the Pahor administration now called upon the Constitutional Court to assess whether the pension reform was unconstitutional (Feldmann 2014, 84). On another occasion, he explained that, if the measures were rejected, "the consequences will concern all of the citizens. The harsh measures that would follow the rejection of the reform will be without mercy, and they will come from Brussels. I do not wish upon anyone what Athens is currently living through" (MMC RTV SLO 2011a). These were not only hypocritical statements by the Slovenian representative, who "vigorously defended austerity measures imposed on Greece" (Vobič et al. 2014, 92) at meetings of the unelected European Council of the Heads of the Eurozone governments and discussions over the participation of Slovenia in the EFSM. The prime minister's discourse was also symptomatic of how the local ruling class participated in European bureaucratic Caesarism in order to be able to shift the decisions that could not be pushed through at one level onto another level, so they could be implemented through external compulsion.

6.2.1.3. Reform blockage, political fragmentation and class orchestration around the Manager Association

The court rejected the government's demand. In spring 2011, the reforms of the pension system and the labour market were rejected by the population.[51] The referendums' outcome proved the relative strength and capacities of the trade unions to mobilise broader masses. "Nationwide political campaigns against the expansion of precarious employment during the crisis were initiated by unions in Poland and Slovenia and, to a lesser degree, in Estonia. However, the only truly successful campaign was in Slovenia" (Mrozowicki, Roosalu, and Bajuk Senčar 2013, 274). As a consequence, the austerity measures were rather mild in 2010 and 2011, making Slovenia one of four European countries that did not cut its public deficits in 2011 (Lindstrom 2015, Eurostat).[52]

The referendums also became a plebiscite against the Pahor administration and provoked the first early elections in the history of independent Slovenia, which took place in late 2011 (Stanojević and Klaric 2013, 220). The intensification of the political crisis was characterised by the presence of recently emerged political parties echoing populist and anti-establishment elements (Krašovec and Johannsen 2016, 6-7); among them, the Positive Slovenia Party (PSP) became a crucial player in the final period of the crisis. These actors could best be described as ad hoc coalitions of various elites that used the crisis as an opportunity to improve their political and economic power at the local level by gaining influence over policy-making and consequent control over the announced wave of privatisation. Despite these major changes in the Slovenian political landscape, the quantitative and qualitative fragmentation of political parties nonetheless ended where their class interests began.

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[51] The referendum on the Mini Job bill took place in April 2011, with 80% voting against the reform; two months later, the pension system reform was ruled out with a 72% no vote (http://www.dvk-rs.si/index.php/si/arhiv-referendumi). At the same time, the voters were also called upon to decide on the reform of the informal economy. This reform was also rejected by 75% of voters.

[52] The three others are Cyprus, Belgium, and Denmark, which all increased their public deficits. In terms of compensation of employees through government expenditures, this represented 12.7% of GDP in Slovenia, 10.8% of GDP in the EU-27, and 10.6% of GDP in the EA-17 (IMAD 2012, 39).

In the middle of heated pre-electoral intrigues, all political actors reached a consensus on the measures proposed by the Managers’ Association of Slovenia (MA); considering the situation as going “from bad to worse”, the association prepared a development strategy called “Commitment: 15/2020” (Managers' Association 2012). To make Slovenia one of the most developed European countries by 2020, this lobby of Slovenian top managers considered “slow” solvency procedures, the “weak” education system, the “rigid” labour market, and “high” taxes as the main “systemic weaknesses” that, if not changed, “will drag the country into an abyss” (Šmuc 2011, 8). The MA held several meetings in the autumn of 2011. The representatives of all major political parties participated in a major meeting held in Ljubljana and agreed that “the commitment is a useful document that strongly corresponds to their political programs” (Šmuc 2011, 8). What is more, none of them contested the proposals of the still governing coalition to introduce the fiscal rule (MMC RTV SLO 2012a) and all of the ruling elites also embraced the proposal to restrict the referendum legislation with respect to the referendum calls over the tax system, budget implementation, and international agreements (MMC RTV SLO 2011b).

Therefore during the first three years of the crisis all of the main dimensions of bureaucratic Caesarism already appeared, even though the popular resistance dominated by AFTUS blocked the imposition of the austerity-based reform program. In fact, the formation of social forces that could potentially overthrow the dominant reform agenda and the “internal devaluation” constraint was one of the key factors that fuelled the reinforcement of the non-democratic dimensions of the Slovenian neo-corporatism and decision-making structures presented above; for example, the empowerment of the executive and the liberation of competition and monetary regimes from democratic accountability (see Section 5.1.3) gained new features. Given the exacerbation of the crisis in 2012 and 2013, European bureaucratic Caesarism could not but intensify further in Slovenia.

6.2.2. Sovereign debt crisis and authoritarian reshuffling of state apparatuses (2012)

In early 2012, Janez Janša, the admirer of the "Estonian way" and the Prime Minister during 2004 and 2008, came back to the Prime Minister position. As a leader of the second, right-centre "crisis" administration, Janša built also on the experiences in neighbouring Hungary, considering that Victor Orbán "successfully stabilised conditions and launched fundamental reforms that would prevent the return of the crisis" (Mekina 2012b). By saying this, the Prime Minister did not refer to the Hungarian government's decision to reduce pressures on indebted middle-classes by "oblig[ing] the banks to accept repayment of foreign-exchange credits at an exchange rate that reflected the pre-crisis level" (Becker 2016, 60). Instead, he pointed to Orban's "efforts at dismantling all the checks and balances of the democratic system" (Bohle and Greskovits 2012).

The new Slovenian government also succeeded to make significant steps further in the dismantlement of democratic decision-making and procedures of domestic neo-corporatism and to push forward a much more radical austerity measures. Notwithstanding right-wing strategy and ideology of class domination of the new Prime Minister, his primarily sources of political and institutional power were related to the uneven rescaling of state apparatuses under the strengthened EMU regime. For Oberndorfer (2015, 202), the NEEG progressively replaced the antagonism between the EU versus the nation state by the antagonism between "the European ensembles of state apparatuses versus (representative) democracy". The stuff change in Ministry of Finance and the pressures from financial markets were essential in this respect.

6.2.2.1. *Pro-Troika change at the Finance Ministry and the restructuring of the banking sector*

The change of ruling coalition was important inasmuch as it created a new avenue for further integration of the Finance Ministry in the leading but unelected European policy apparatuses. Dejan Krušec, a member of the Troika team, assumed the position of secretary of the cabinet (Križnik 2012); this staff change was very significant because the government centralised all decision-making powers within the ministry directly linked to international finance. Interviewed by Marn (2012), Janez Šušteršič, the minister of finance at the time, explained that the "anti-crisis concept and program" were mostly designed within the cabinet for finance.

Krušec[53] received his master's degree at the Kiel Institute for the World Economy in Germany and obtained his doctorate at the European University Institute in Florence with a dissertation on the impacts of fiscal and monetary policies on the real economy. In September 2006, he joined the ECB's team, and three years later he participated in preparing the macro stress tests for assessing bank solvency at the European Banking Authority. During this period, Krušec was often quoted in the international media. In mid-2009 *Spiegel*, for instance, wrote that "ECB financial stability expert Dejan Krušec fears that, in the worst-case scenario, another banking crisis could be precipitated. If a fast 'V-shaped' rebound takes place, he said, banks will be strong enough to weather the storm, the *Daily Telegraph* quoted him as saying. 'If this is "U-shaped', the banks will have problems". In 2010, Krušec provided "technical assistance" in the ailing Eurozone countries and became a member of the IMF/EC/ECB Troika; as a representative of the ECB with regard to banking solvency, he participated in restructuring the banking sector in Ireland and Portugal.

Although Krušec left the cabinet with the next governmental change in early 2013 (Sovdat 2013; see below), the policy measures that the ministry proposed during his term determined the final restructuring of troubled banks. Starting in 2009, public debate was divided between various methods allowing the recovery of banks' portfolios (Kocbek 2009, Stošicki 2011). The concept that the government chose during Krušec's term was similar to that put in place in Ireland in 2009–2010, when a separate Bank Asset Management Company (BAMC) or "bad bank" was established and took over the NPLs in return for government-guaranteed bonds. Many local experts and economists disagreed with the proposed "bad bank" method, mostly because of its relatively higher public costs and the fact that this mechanism could not by itself resolve the problem of corporate indebtedness (Kržan 2014, Ribnikar 2012, Stošicki 2011, Breznik and Furlan 2015).

Those voices were, however, dismissed; the chosen method of banking restructuring was indicative of the uneven reshuffling of the Slovenian state apparatuses during the crisis and their integration into the European ensemble of political executives, national governments, the

[53] No biographical summary has been found for Dejan Krušec. The information provided here is taken from the following sources: Ministry of Finance (2012), Križnik (2012) and Mekina (2015).

EC, and the ECB, which worked "in close collaboration with market 'experts' and representatives of financial and non-financial (trans-)national capital" (Bieling 2015, 102).

6.2.2.2. The formation of the Slovenian ensemble of Caesarist apparatuses

The government change coincided with a significant intensification of the crisis, fuelled by spiking yields on government bonds and the fact that Slovenia was supposed to bring its public deficit in line with the Maastricht criteria by 2013. An additional source of pressure was provided by the government itself, which signed the TSGC; although this move contributed little, if anything, to the economic recovery, it did empower the government and fuelled its authoritarian tendencies.

In a similar vein as its predecessor, the government used the threat of the Troika together with a fatalist discourse that "austerity [was] necessary and that there [was] no other option" (Vobič et al. 2014, 93) in order to legitimise an "[i]ncreasing encroachment on the procedures of formal democracy and the rule of law […] intended to place the European ensemble of state apparatuses […] of which the national executives are part, in a position to chip away the social rights that are still anchored in the national legal systems" (Oberndorfer 2015, 202-03). First, to secure control over the new privatisation process, the Janša cabinet planned to establish a new Sovereign Holding (Government of the Republic of Slovenia 2012, 5). Its board would be appointed solely by the government, whereas the parliament would have no right to influence or control the decision-making process (Mekina 2012a). The centralisation of powers over state enterprises went hand in hand with the centralisation of power over public finances. The right-centre government took a step further from the previous one and intended to alleviate a rule-based anti-Keynesianism – the fiscal rule (Mencinger 2012) – in a constitutional norm (Government of the Republic of Slovenia 2012, 7).

Moreover, the government tried as much as it could to bypass neo-corporatist bargaining when preparing the new austerity measures plan. To bring the public deficit down by over three percentage points in a year, a linear cut of public wages by 15% and a cross-sector legislation change of the entire public sector were planned (Government of the Republic of Slovenia 2012, 23). The government gave the institutional social partners only three weeks to reach an agreement over this extensive law on public finances, and effectively gave the trade unions "a mission impossible", as one of their leaders claimed (Kristan 2012).

In fact, "fast track" decision-making became a rule; between February and June, the coalition changed thirty-three laws under the "fast track" customs procedure (Vukelič 2013). Despite protests by the NGOs, the anti-corruption commission, and the ombudsman, the government continued to rapidly modify another seventy laws by the end of the year that, among other things, transferred the competences of the state prosecution from the Ministry of Justice to the Ministry of the Interior (Mekina 2012c).

The "bureaucratic Caesarist drive" culminated at the end of the year, when the Constitutional Court became an integral part of it. During the autumn months, two sectorial trade unions[54] and members of a recently established party, the PSP, called for a referendum against the establishment of the "bad bank" and the Sovereign Holding (MMC RTV SLO 2012c, b). Whereas the unions' calls were dismissed due to the limits of legality (Dnevnik 2012b), the demand of the PSP was reviewed by the Constitutional Court. This time, the court forbade the referendums, claiming that the gravity of the economic crisis and the state obligations included in the European treaties and intergovernmental agreements had priority over the basic principles of formal democracy.

6.2.2.3. Austerity measures, protests and another government change

The "austeritarian regime" of the Janša administration sparked popular indignation. The first significant mobilisation was related to the announced public wage cut. When the government hastily adopted another emergency intervention law on additional cuts in the public sector without consulting the social partners (Delo.si 2012), the public unions organised an even larger strike than a year before, joined by about 100,000 participants, according to the trade unions' figures (SVIZ 2012). The protests forced the government to return to the negotiating table. In exchange for "only" an 8% wage cut and decreased government interference in social rights, the unions signed an agreement that enabled the parliament to adopt the Public Finance Balance Act, which legislated austerity measures (Stanojević and Klaric 2013, 224).

Moreover, a popular protest against the mayor of the second-largest city (Maribor) in September 2009 soon evolved into a massive civil society movement against the government, but also against the entire "transitional" establishment (Lindstrom 2015, 223). (The urban) middle class, which was particularly affected by the announced austerity measures,

[54] The union of the chemical, non-metals, and rubber industry called for a referendum against the bad bank project, and the union of electro-energetics reacted against the SSH.

predominated in public gatherings that took place until early 2013 (cf. Stanojević, Kanjuo Mrčela, and Breznik 2016).

The political crisis received new twist at the beginning of 2013, when the Commission for the Prevention of Corruption drew up a report suggesting that Prime Minister Janša (and also Zoran Janković, the leader of the recently emerged PSP, mentioned above) was involved in corruption scandals. Faced with a record low level of public support of 23% (Vobič et al. 2014, 82), the conservative government started to disintegrate and a constructive no-confidence vote took place, allowing a coalition under the leadership of Alenka Bratušek, a member of the PSP, to take power.

Intensification of the political hardship in Slovenia was part of the expanding political hardship in the EU member states. "Between 2009 and 2012, there were early elections and government reshuffles in 12 EU countries, of which nine were Eurozone countries […] Be it by social democrats or conservatives, authoritarian 'austerity measures' are being enforced on populations irrespective of mass protests" (Candeias 2013, 2-3). At least in Slovenia, the austerity measures and authoritarian policy-making would be much stronger without militant trade unions and the mobilisation capacities of a broader population. What is more, in contrast to many other European countries, in particular in the post-socialist region, where the political crisis was accompanied by the rise of (far-)right parties, the "winter of discontent" movement from late 2012 and early 2013 led to the formation of the first anti-capitalist parties, echoing development in the Eurozone southern periphery.

However, bureaucratic Caesarism concerned not only the undermining of the formally democratic form of political coordination; it was also related to a specific state remodelling, whereby the executive institutions and those linked to finance were strengthened and accorded the right of policy-making – or dictating – and the institutions defending social rights, protection, and equality were weakened and institutionally reduced to policy-taking (cf. Keucheyan and Durand 2015). The new administration, led by Alenka Bratušek, never questioned, let alone reversed, the underlying this trend. Therefore, although formally representing the centre-left side on the political spectrum, like its predecessors, the new ruling coalition followed "the general logic […] changing some policy emphases and priorities, but primarily preparing the terrain for new rounds of neoliberal policy" (Stanojević 2014, 110).

6.2.3. Left-centre government with right-wing economic policies and institutions (2013–2014)

After the Cyprus crisis in early 2013, the international press speculated that Slovenia would become the "next domino" (The Economist 2013); that is, the post-Cyprus member state resorting to Troika assistance. Slovenia, as explained in the previous section, did avoid the Troika intervention as practiced in other troubled countries; however, it did not and could not escape the ordoliberal prison of the European ensemble of state apparatuses that domestic institutions were becoming part of. What is more, during the crisis, the ECB became an effective authority not only for Slovenia's macroeconomic dynamics but also for its political dynamics. By exposing the country to pressures from financial markets and imposing strict conditions on financial assistance programs, it encouraged the non-democratic drive of the public authorities. As will be shown here, its "whatever-it-takes shift" at the peak of the sovereign debt and political crisis was also very effective for the final realisation of the Slovenian Exit strategy. Behind the apparent macroeconomic and political pacification, the internal reshuffling of domestic neo-corporatism accelerated further in favour of price competitiveness, financial concerns, and non-democratic policy-making. Moreover, once again, feedback effects did not take long to emerge, even though they could impact only those political institutions that were formally still anchored at the state level; increasing popular distrust in the existing political system and its main representatives led the "third" crisis government to resign about a year after it took power.

6.2.3.1. The self-proclaimed Slovenian Troika and its ensemble of financial elites

Alenka Bratušek, Slovenia's first female prime minister, was very clear regarding the extent of the *internalisation* of European bureaucratic Caesarism by domestic institutions and actors. Among the Slovenian population, the leader of the "third" crisis government is known for the assertive statement given in mid-2013 upon the occasion of Boštjan Jazbec taking up the duty of governor of the BS. In reference to the new governor and the finance minister, Uroš Čufer, she declared that "all three of us […] our [Slovenian] Troika, we are certain and determined to resolve our problems by ourselves. That is, without another Troika" (Delo.si 2013b).

In fact, the already deep integration of the Slovenian executive, financial institutions, and organisations representing the main managers into the ordoliberal European ensemble of apparatuses received an additional impetus in 2013 and 2014, when several staff changes took place in institutions controlling the restructuring of the banking sector (Pistotnik and Živčič 2015, 18-19). The new governor of the BS constructed a solid network in international finance and its main institutions, such as the EBRD, the World Bank, the BIS, and the IMF. Novak commented for Reuters that "[a]mong a cosy elite dominated by old faces, Jazbec represents a new generation […] As bank governor he will have a say in the sale of No. 2 lender Nova KBM [...] He'll also be watched closely for his twin role on the rate-setting governing council of the European Central Bank" (Novak 2013a). The new governor urged the authorities "to speed up privatisations in sectors where 'the market is more effective than state ownership'" (Novak 2013b) and was also very supportive in the establishment of the proposed BAMC ("bad bank").

In fact, the BAMC, put in place by the Bratušek administration in 2013, created additional institutional channels for linking the restructuring of banks to international finances. The members of the BAMC used to work in Troika institutions.

> Lars Nyberg was president of the ECB crisis management group and a member of a high-level expert group on financial supervision in the EU. Arne Berggren was a member of the IMF Troika team in Spain; and his colleague Carl-Johan Lindgren worked for the IMF as well. In January 2014, the Slovenian government nominated a new non-executive director of the board of BAMC, Mitja Mavko from the Ministry of Finance (now employed at the EBRD). He was the Head for International Financial Relations and his main role was to maintain relations with [international financial organisations]. (Pistotnik and Živčič 2015, 17-18)

6.2.3.2. State reshuffling in favour of price competitiveness and financial stability

When assuming power, Bratušek announced that it was necessary to "end the atmosphere of fear […] In Slovenia there will not be a Greek scenario […] We will try to re-establish a constructive dialogue with civil society, experts, and social partners" (Delo.si 2013a). The government did indeed re-establish a constructive dialogue, but this dialogue was impregnated with a very asymmetrical redistribution of bargaining powers and manoeuvring space.[55] The dialogue was constructive especially for the representatives of capital, and this despite the fact that it was the representatives of labour that struggled most for it. As was shown, "the fierce struggle of the trade unions and general unrest" (Kržan 2014, 337) acted as a disciplinary force against the authoritarian aspirations of the Slovenian executive, forcing it, *again* and *again*, to include trade unions in negotiations over policy measures (Stanojević and Klaric 2013, 225).

However, institutional inclusion did not imply political inclusion as well. "During the entire post-2008 period, social partners have participated in the work of the tripartite Economic and Social Council […] But the real influence of the partners, especially the unions, on the formation of policies is almost incomparable to the influence they once had in the 1990s" (Stanojević and Kanjuo Marčela (2014, 14-15). Two factors are worth mentioning to understand the further weakening of the effective power of organised labour. The dominant policy agenda offered little, if any, leeway for more redistributive social policies, and it pushed the trade unions into a position where they could bargain only for the depth and reach of labour devaluation; that is, a downward adjustment of working and living conditions of their members.

At the same time, Stanojević (2015, 409) explains that by exposing the unions to unprecedented pressures from above, but also from below, the crisis pushed the unions to privilege the defence of the interests of their members. The accentuation of economic logic at the micro level accelerated the fragmentation of trade unions and further weakened their bargaining power at the macro level. As a consequence, the strategy of social partnership progressively resembled a strategy of "a systemic conceding to the demands of employers, banks, governments and Europe" (Stanojević 2015, 409-410).

The Bratušek administration therefore successfully accomplished the remaining tasks of its predecessors: the reforms of the social security system (2011) and of the pension and tax systems (2012) were complemented with the reform of the labour market, agreed by the institutional social partners (Stanojević, Kanjuo Mrčela, and Breznik 2016, 7). The section below discusses these reforms in greater detail. At the same time, the crisis enabled the Slovenian governments to take some additional steps in making domestic neo-corporatist

[55] The prime minister also agreed to cancel some measures related to the implementation of the PFBA, such as the restoration of the Ministry of Culture and the reassignment of the public prosecutor's office to the Ministry of Justice, and called for more moderate austerity (Delo.si 2013a).

arrangements less democratically accountable. In May 2013, the parliament approved the constitutionalisation of the "golden fiscal rule", followed by the change of referendum legislation in line with the proposals of the first "crisis" government.

This led Bole (2016, 8) to observe that the "hardest" part of the "adjustment of Slovene public finance was still to come [while] the policy decision-makers would not have autonomy in any of them" (Bole 2016, 8) because Slovenian macroeconomic policy is supervised and constrained by the European Semester procedures. Moreover, he warned that "Slovenia will be trapped in a restrictive fiscal policy even after its public budget reaches the level of a mid-term balance [because] structural deficit may never exceed the minimal level, defined by international commitments of government" (Bole 2016, 8). With respect to the referendum legislation, it had a clear class connotation. For Stanojević, Kanjuo Mrčela, and Breznik (2016, 6), "[t]he changed rules on calling referendums removed a powerful tool from the trade unions to combat anti-labour proposals".

The fiscal rule and the referendum legislation were two additional steps in reducing the democratic accountability of macroeconomic policies (Štiblar 2017, 37). This process peaked in the middle of the year, when the EC and the ECB took control over banking restructuring in Slovenia.

6.2.3.3. Bank recapitalisation and the intervention of the ECB and the EC

At first glance, in 2013 the EU decreased its pressures regarding fiscal stabilisation by according Slovenia two additional years to reduce the deficit below 3% of GDP (Council of the EU 2013). Nevertheless, the enforcement of the Two-pack provisions and the fact that the EC decided that the country was experiencing excessive macroeconomic imbalances (EU Commission 2012) while facing its most important fiscal challenge (i.e., the recapitalisation of the banking sector) placed Slovenian macroeconomic policies under strict control of the EU executive (Council of the EU 2013, EU Commission 2013b).

Starting in late 2012, the state dealt with the transfer of bad loans and new recapitalisation of the two main banks, seeking to realise both of these goals by June 2013 (Breznik and Furlan 2015, 199). In its National Reform and Stability Program 2013, the Bratušek government confirmed that it would continue with the restructuring strategy of its predecessor. The financial framework for the operation was based on stress tests carried out by the BS in autumn 2012 in line with the methodological proposals of the IMF mission (Bank of Slovenia

2013b). However, during the fiscal coordination cycle in April and May, the EC stepped in and blocked the government's action (Council of the EU 2013, 77, Breznik and Furlan 2015, 203). As a prerequisite for the approval of state aid, the Commission and the ECB requested that new tests be carried out. The BS was "recommended" to engage international consultants and real estate appraisers that would ensure the compliance of the methods tested and international standards with comparable reviews previously conducted in countries under the Troika rule (Greece, Portugal, Ireland, Spain, and Cyprus). This expensive operation[56] not only postponed the rehabilitation of the banking sector, but also came at a much higher estimation of the total capital needs of the banks in comparison to the BS's initial calculations[57] (Mencinger, Juuse, and Kattel 2014, 72-74).

In parallel to the realisation of the banking sector review, Slovenia changed the banking legislation under fast-track procedures (Mencinger, Juuse, and Kattel 2014, 72-74). In July 2013, as part of the discussion on the creation of the banking union, the EU Commission announced new rules regarding state aid to the banking sector, introducing the so-called bail-in approach; that is, the participation of bank owners and junior creditors in the recapitalisation of banks before any public support can be made available (EU Commission 2013a). Slovenian authorities rapidly and with no public discussion modified the legislation regarding the provision of banking capital and insolvency procedures (Taškar Beloglavec and Taškar Beloglavec 2014a, 44). In addition, to obtain the approval for state aid, the government committed to fully privatising NKBM and Abanka after their recapitalisation, as well as to reducing the state ownership in NLB to 25% plus one share in the medium term (DC ECFIN 2014, 22-23, OECD 2015, 139-40, for information on exact state aid decision see Taškar Beloglavec and Taškar Beloglavec 2014a, 39).

Bearing this in mind, the observation about the class dynamics in the southern Eurozone states made by Stockhammer (2014) could be extended to Slovenia as well. By 2013, the ruling classes of these countries of the Eurozone periphery shared not only similar macroeconomic difficulties, but also class concerns, and they "got many of the reforms they wanted (in particular with respect to the labour market and the welfare state), but under conditions that

[56] The total operation included ten banks and banking groups that constitute over 70% of the Slovenian banking system. The asset quality tests were carried out by Deloitte for NLB, whereas Ernest&Young reviewed the assets of other banks. Stress tests were carried out by Oliver Wyman (bottom-up approach) and Roland Berger (top-down approach). The costs covered by the BS exceeded EUR 21 million (Bank of Slovenia 2014b, 1-2).

[57] According to initial calculations, the estimated costs of the recapitalisation of the three largest banks were estimated at EUR 900 million (The Republic of Slovenia 2013, 15). In contrast, according to the "independent" review, the remaining capital requirement amounted to EUR 3.012 billion (The Republic of Slovenia 2014, 14).

they didn’t want” (Stockhammer 2014, 14). In his column, Cirman (2013) wrote that the Bratušek cabinet became “a de facto technical government, solely committed to a strict execution of the orders from Brussels [...] With respect to her long-term political perspective, it is Papandreu that has the most to say.” Indeed, losing all legitimacy and credibility, the Bratušek administration resigned in the first half of 2014 after the implementation of all of the reforms. In 2014, more than 90% of the population was dissatisfied with the state of democracy, whereas prior to the crisis this group of people comprised around half of the population. Not surprisingly, then, the early 2014 elections were characterised by the lowest participation of voters (Krašovec and Johannsen 2016, 6).

The ruling coalition of the first post-crisis government was formed by the “anti-establishment” centrist party of Miro Cerar. Nevertheless, the government “remained committed to balancing the budget, eliminating the deficit, the long-term sustainability of public finances, although it has the benefit of signs of economic recovery” (Stanojević, Kanjuo Mrčela, and Breznik 2016, 7).

Conclusion

The political crisis in Slovenia received significant academic attention. The strong erosion of corporatist and democratic policy-making, high political instability, and the radicalisation of political leaders’ agenda in line with the EU policy directives and the direct interference of international actors in domestic policy-making have been acknowledged (Guardiancich 2016, Bohle and Greskovits 2012, Stanojević, Kanjuo Mrčela, and Breznik 2016, Lindstrom 2015, Bembič 2013, Krašovec and Johannsen 2016). Although these analyses differ substantially with respect to their theoretical and analytical backgrounds, they have one assumption in common. They tend to downplay the importance of the internal and uneven displacement of Slovenian institutions in line with the EU/EMU state-building during the pre-crisis period and, hence, tend to underestimate how the adoption of the NEEG accelerated this peculiar state remodelling.

A combination of weaken state macroeconomic capacities, which prevented the Slovenian governments to resort to expansionary policy or currency devaluation and simultaneously exposed it to the pressures of financial markets, and powerful popular opposition against the dominant economic policy were the main factors behind the exacerbation of authoritarian policy-making. The more the crisis intensified, the more the Slovenian ensemble of Caesarist apparatuses – the government with the Finance Ministry, the employers' organisations, and the Court of Justice – was integrated and worked in cooperation with European ones. The escalation of the political conflicts in Slovenia was indicative of the fact that a clear opposition between "internal" versus "external" and "national" versus "European" could no longer be assumed since some of the crucial fields of macroeconomic state management were transferred on the European level. The launching of the NEEG only further increased the political authority of the EC and the ECB over the Slovenian regulation regime, especially in terms of fiscal policy, that they had become constituent parts of.

This section has also argued that, in a similar vein as in the pre-crisis period, the uneven re-territorialisation of the Slovenian state apparatuses further accelerated the structural re-shuffling of the neo-corporatist arrangements in favour of a further subordination of the political and economic management of labour to the principles of price competitiveness and fiscal stability. That did not imply that labour and related institutions withered away, but their role changed again. In fact, at least in Slovenia, by repeatedly pushing the governments to return to the negotiating table, the struggles of the trade unions and their mobilisation capacities were essential for disciplining the austeritarian drive of domestic authorities. Without these struggles, the economic meltdown in Slovenia after 2007–08 would have probably been worse and the Caesarist increase much less bureaucratic.

In the introduction, it was explained that for Durand and Keucheyan (2013), European bureaucratic Caesarism has had a regressive character and tended to restore the pre-crisis structures, although not completely. It therefore seems useful to explore to what extent Slovenian bureaucratic Caesarist policy-making has laid the ground for more sustainable growth. The nature of socio-economic restructuring since the late 2010s and its impact on the development prospects of Slovenia are the subject of the next and final section of this discussion.

6.3. Regressive socio-economic restructuring and further peripherisation

The analysis now turns attention to the impact of the crisis on the European core-periphery structures and relations. It has been already mentioned several times that the European one-size-fits all approach did not take into account the weaknesses specific to the Slovenian economy. The section here therefore explores how and to what extent the dominant "crisis" economic agenda and structural reforms impacted the already present trends of the peripherisation of the Slovenian economy within European economic space. It is argued that, by promoting export-led recovery with structural reforms focused on price competitiveness and fiscal stability, the dominant economic agenda made Slovenia more instead of less vulnerable: by making domestic labour markets and social provisions more precarious and encouraging foreign-led privatisation as the main active industrial policy, Slovenia continued to effectively undermine the socioeconomic sources of stability at home. Consequently, the country became even more dependent on exports and foreign demand, as well as on foreign capital inputs, whereas the state inherited a significant debt burden. At the same time, regressive socio-economic restructuring also implied that the "crisis" governments substantially accelerated the ordoliberal reshuffling of state apparatuses and made further additional steps in favour of rule-based and re-scaled macroeconomic management, insulated from popular pressures and formal democratic accountability.

This argument is presented in three steps. The first part discusses major structural reforms and the second one socio-economic restructuring. In the last section, a comparative stance is adopted in order to contextualise the Slovenian crisis trajectory within the European core-periphery divide.

6.3.1. Structural reforms and ordoliberal institutional reshuffling

This part complements the discussion from the previous section, arguing that bureaucratic Caesarism in Slovenia allowed not only for a further re-hierarchisation of institutional norms and policy principles in favour of price competitiveness and financial stability, but also for a substantial authoritarian remodelling of state apparatuses. To show these double tendencies of non-democratic reshuffling of neo-corporatist arrangements, the main elements of the structural reforms in industrial relations, the social security system, and the restructuring of the corporate and banking sector are provided here. As will be seen, paradoxically, by basing its anti-crisis agenda on policies and practices emulating German accumulation and regulation regimes, Slovenia effectively undermined the economic basis needed to move up on the convergence ladder.

6.3.1.1. *Normalisation of precarious employment and a further curbing of trade union power*

Analysing labour market development during the crisis in Slovenia, Stanojević, Kanjuo Mrčela, and Breznik (2016, 12) state that "the formal structure of industrial relations in Slovenia did not undergo any major changes during the economic crisis. But within this formal structure, which has been exposed to small, incremental changes, there are clear signs of major changes in power relations as well as in the logic and quality of the industrial relations system". Indeed, the 2013 labour market reforms took some additional steps toward making precarious jobs the norm, whereas the bargaining structures tended toward greater decentralisation at the micro level and toward hindering trade unions' bargaining power at the macro level.

By bringing the working conditions of permanent and temporary labour contracts closer together, the 2013 labour market reform resulted in comparatively higher employment protection of Slovenian labour compared to the OECD average (Stanojević, Kanjuo Mrčela, and Breznik 2016, 7). On the one hand, the reform slightly improved the protection of precarious workers by introducing severance pay in both types of contracts and limiting the use of temporary agency work. In addition, employers were prevented from offering successive fixed-term contracts for a given job (but not to a given worker) for a period longer than two years. On the other hand, the existing protection in the matter of dismissal of the regularly employed (termination procedures, notice periods, and severance payments) was reduced to such an extent that employers' costs are more or less similar in both contract types. Finally, the reform exempted employers from paying the contribution for unemployment for the first two years in the case of a permanent employment contract (Bembič and Stanojević 2015, 35, OECD 2013, 35, 2015, 86).[58] In fact, "the typical defining traits of precarious work (low wages, the growing insecurity of employment) are no longer only limited to precarious work but have become characteristic of arrangements that are formally regarded as standard employment" (Bembič and Stanojević 2015, 3).

The Slovenian government also took an additional step forward in the normalisation of precarious employment conditions with the introduction of a new legal category of worker, the so-called economically dependent. This term refers to self-employed workers that are performing their job alone and independently under a civil law contract. The legislation provides them minimal job security and a level of income comparable to that received by other workers exercising similar work under similar conditions. However, they have no rights related to overtime, holidays, sick leave, and so on (Bembič and Stanojević 2015, 14).

Regarding the system of collective bargaining and institutionalised social dialogue, this dialogue was brought under intensified pressure toward further decentralisation and the primacy of company-level bargaining (Stanojević, Kanjuo Mrčela, and Breznik 2016, 8). The labour market reform provoked changes in sectorial collective agreements that hold a central role in the Slovenian collective bargaining system. The new agreements are less comprehensive in terms of their topics, fewer, and less constraining (Stanojević, Kanjuo Mrčela, and Breznik 2016, 8). Employers are also more inclined to cancel collective agreements, "which is a strong sign of employers being more and more aggressive on bipartite level(s) of social dialogue" (Lukič 2013, 5). At the same time, the 2013 change in the status of the Chamber of Craft and Small Business from obligatory to voluntary membership additionally weakened the regulatory capacities of the collective bargaining system and provided an additional source of pressure on the liberalisation of labour market arrangements (Stanojević and Kanjuo Mrčela 2014, 14). Finally, the new legislation allowed for more flexible company-level arrangements than those postulated by the law or bargaining at a

[58] Only major characteristics of legislative changes are outlined here. A well-informed account of the labour market reform is provided by Bembič and Stanojević (2015, 35-36).

higher level in the case of an agreement between trade unions and employers within a company (Stanojević, Kanjuo Mrčela, and Breznik 2016, 8).

As has been already mentioned, when speaking about the remodelling of industrial relations during the crisis, the reform of referendum legislation and of the fiscal system should be taken into account because they further narrowed the range of options open for influencing legislation, as well as the bargaining power of trade unions (Stanojević and Kanjuo Mrčela 2014, 11). In May 2013, the constitutionalisation of the fiscal rule[59] first of all confined fiscal policy to a rule-based anti-Keynesianism (cf. Mencinger 2012, 9, Štiblar 2017, 36, 40-41). The rule was operationalised in 2015 with the Fiscal Rule Act.[60] Each year, the debt and structural deficit should be reduced by 1/20 of the surplus above 60% of GDP and by at least 0.5% of GDP, respectively (Bole 2016, 8). At the same time, in addition to restricting mechanisms in calling for a referendum and the rules on voting results, the constitutional amendments of May 2013 narrowed the scope of the issues that can be the object of a referendum (Pistotnik and Živčič 2015, 33).[61] Referendums are no longer allowed to be called with respect to laws concerning fiscal issues (such as taxes, customs, and other obligatory charges, as well as the implementation of the central government's budget), emergency measures, and the ratification of international treaties, such as those related to the European integration project (IMAD 2014a, 57).

The labour market reforms, implemented during the NEEG regime, thus took some further steps in the re-making of Slovenian neo-corporatist structures in line with an ordoliberal – non-democratic and rule-based – logic. The reform of the social protection system also represented a mix of past trends toward greater workfare, combined with new authoritarianism of the Slovenian state apparatuses.

[59] Constitutional Act Amending Article 148 of the Constitution of the Republic of Slovenia (UZ148). Official Gazette of the Republic of Slovenia, no. 47/2013 of 31 May 2013.
[60] Official Gazette of the Republic of Slovenia, no. 55/15.
[61] Whereas previously three institutional actors (i.e., citizens, the parliament, and the National Council) could request a referendum, henceforth only a group of at least 40,000 citizens is eligible to do so. In addition, for a law to be rejected, at least one-fifth of all qualified voters must vote against the law (IMAD 2014a, 57).

6.3.1.2. Combining workfare with social policing

There were two major reforms of the welfare provisions by 2015, one dealing with social security and the other with the pension system, and a reform of healthcare is currently in preparation. As in the past, the reforms restructured the welfare systems in line with financial criteria and workfare principles; at the same time, new measures were introduced, allowing the state to exercise greater control over beneficiaries.

The Pension and Disability Insurance Act,[62] which entered into force in January 2013, equalised the retirement criteria and the qualifying years for both men and women, and brought the retirement age to sixty-five (with fifteen qualifying years) or to sixty (with forty qualifying years). A restrictive pension indexation policy was introduced, and the contribution periods upon which pension payments are calculated were extended from eighteen to twenty-four years. In addition, to stimulate work participation among elderly workers, the reform strengthened the bonuses for postponing retirement and increased negative accrual rates, thus indirectly further reducing pensions for those that decided to retire before the set pensionable age (IMAD 2013, 35). These measures could be seen as s prolongation of already existing tendencies to liberalise the Slovenian pension system. In contrast, the abolition of state pensions related to this transfer to social care significantly departed with the universalist character of the pre-crisis pension system (Filipovič Hrast and Rakar 2015). Previously, each person over the age of sixty-five not eligible for insurance-based pensions automatically received a state pension; however, such people now depend on social assistance and supplementary allowances with stricter eligibility criteria (Trbanc et al. 2016, 32-33).

The social security reform was framed by four pieces of legislation[63] adopted between 2010 and 2012 that strengthened the restrictive and policing aspect of Slovenian social welfare introduced by the 2007 reform (Leskošek 2011, 1278). The key changes were as follows: the transfer of compensatory supplements for pensions and the state pension from the pension system into social care; the merger of property and income criteria, including any humanitarian and charity financial help, to establish the basis for allocating social allowances; and the introduction of a strict ordering for claiming benefits, whereby the allowance already

[62] Pension and Disability Insurance Act (ZPIZ-2), Official Gazette of the Republic of Slovenia, no. 96/2012.

[63] The Exercise of Rights to Public Funds (Ur. l. RS: 61/2010) and the Social Protection Benefits Act (Ur. l. RS: 61/2010) were adopted in 2010 and came into force in 2012. They were complemented by two interventional acts in January and May 2012.

obtained is included in one's income and is used as a basis to calculate one's eligibility or the level of one's benefit (Trbanc et al. 2016, 32-33).[64]

The new legislation reinforced workfare principles already incorporated in the social security system (Leskošek and Dragoš 2014, 51): social and family benefits became more targeted measures with stricter criteria, and universal rights were abolished in favour of extensive means testing in order to increase selectivity (Filipovič Hrast and Rakar 2015). In addition, the reforms brought a new logic to the entire social security system, complementing workfare with policing principles and the criminalisation of beneficiaries, considered thieves and fraudsters of the welfare state (Leskošek and Dragoš 2014, 43). The legislation introduced a new term, so-called fault-based grounds, related to employment and the manner in which a job was lost, that further restricts benefit allocation (Leskošek and Dragoš 2014, 43-44). Professional workers henceforth have available various control mechanisms to alert them to and/or prevent the abuse of social allowances and now use as many as thirty databases, whereby information on beneficiaries is centralised within a new electronic system (Trbanc et al. 2016, 33).[65]

Therefore, the primary impact of the fiscal retrenchment was to consolidate the "devaluation" of the Slovenian welfare state in line with the principles of cost competitiveness and downward wage flexibility. In a system in which cost competitiveness and fiscal stability were brought to the position of governing principles of institutional coordination and macroeconomic decision-making, social security mainly became a system of policing and criminalisation, whereas the main charge of guaranteeing social security was individualised and transferred to one's family (Leskošek 2011, 1272). However, public sector downsizing not only had an impact on welfare state provisions, but also influenced the state's role in reorganisation the productive and financial system.

[64] Filipovič Hrast and Rakar (2015) highlight that a paradigmatic shift took place within the family policy, in particular with respect to the child benefit. As a consequence of stricter eligibility criteria and benefit ordering, the child benefit is no longer used to cover children's extra expenses, but instead plays the role of a primary source of income for entire families.

[65] In April 2014, the government introduced some additional modifications to the new legislation, in particular with a new Parental Protection and Family Benefits Act, which changed some aspects of parental and paternity leave, child benefits for single parents, and the rights of non-biological parents. However, as Filipovič Hrast and Rakar (2015) point out, "these changes were minor and mostly served as 'cosmetic makeovers' … they affect only a very small percentage of single-parent households due to a narrow definition of a 'single-parent family', thus creating an implementation gap".

6.3.1.3. *Privatisation with foreign financial capital and without democratic accountability*

With the austerity measures agenda and commitments to the fiscal pact, the state clearly renounced its active role in the restructuring of the (troubled) domestic financial and non-financial corporations, reducing itself to a provider of a legal framework in favour of private investments, mostly under the auspices of foreign capital.

The main domestic pillars of this foreign-led restructuring of the productive and financial system became two institutions: the Slovenian State Holding (SSH) and the already mentioned BAMC, established in 2013 and 2014, respectively (Štiblar 2015). The BAMC received the banks' non-performing loans and was responsible for the restructuring of the related corporate enterprises. Because in some cases the transfer of banks' claims implied the transfer of equity capital, the BAMC also became a direct owner of some troubled enterprises.[66] In fact, Breznik and Furlan (2015) point out that the main restructuring method of the BAMC was to send enterprises into bankruptcy and sell the remaining assets. In contrast to the BAMC, the SSH has solely focused on the privatisation of Slovenia's state-owned assets and was designed in a similar way as the privatisation agencies established in the 1990s in other post-socialist countries to encourage rapid privatisation (Mekina 2012a): the SSH disposes of all state assets[67] while enjoying an important level of protection from democratic control by being, among other reasons, defined as both an owner and a manager of state enterprises (Štiblar 2015, 10). The "independence" of the SSH was clearly seen in July 2014, when the institution threatened the government with a lawsuit if government did not withdraw its demand calling on the SSH to halt the privatisation process (Pistotnik and Živčič 2015, 25, see also Mekina 2014a). A similar observation could be made with respect to the "bad bank", which became a sort of informal agent of non-transparent privatisation (Pistotnik and Živčič 2015, 18-19, Štiblar 2015, 8-9).

By the end of 2015, the SSH had sold nine of the fifteen enterprises from the 2013 privatisation list, including the largest national food corporation (Žito), the national airport (Aerodrom Ljubljana), and the second-largest banking franchise (NKBM) to foreign investors. The privatisation plans further expanded in 2015 with the publication of the

[66] By 2015, the BAMC was in charge of 426 enterprises and became a more or less significant owner of fifteen enterprises.

[67] The SSH acquired the assets of all previous state asset management companies except KAD (the state pension fund).

Strategy for the Management of State-Owned Assets. Thus, in 2016, the tender process for the sale of shares in thirteen enterprises was pending, and the government was scheduled to begin the reduction of state assets in twenty-five new firms (Bank of Slovenia 2016a, 19). Although some privatisation proceedings have been blocked under the popular pressure, such as in the case of selling the major telecom provider, others are still taking place and/or were postponed, such as the case of the main systemic banking group, NLB.

The launching of the third foreign-led privatisation wave brought two actors (back) into the Slovenian political economy. It enabled the EBRD to extend its activities in the country. In early 2014, the bank opened its office in the Slovenian capital and announced a new strategy to take part "in the privatisation of key enterprises currently under state control, either through debt or equity financing" (The Slovenia Times 2014). After already participating in a partial privatisation of NLB in 2002, the EBRD was now one of the two main buyers of NKBM assets, acquiring a 20% stake in the bank, and the remaining stake was acquired by private equity investment funds affiliated with Apollo Global Management LLC (Breznik and Furlan 2015, 213-14). Apollo was only one of the representatives of various financial funds that backed the selling of state assets. The participation of speculative funds in the privatisation and/or selling of companied might be seen as more of a "conjuncture" feature, related to contemporary lax monetary policy. Venture capital groups and the like also took advantage of forced mass privatisation in Greece to restore their profits with cheap purchases and expensive sales (Grahl 2015, 117).

Therefore, since 2010, to ease the economic recovery the Slovenian authorities followed "usual neoliberal measures-privatisation (including fire sales of state assets), liberalisation of procurement, and deregulation" (Grahl 2015, 175), which were supposed to enhance competitiveness and restore fiscal stability. In addition, the implemented reforms introduced a clear ordoliberal logic in the Slovenian neo-corporatist framework: the restrictive economic and budgetary policies were alleviated from the rule-based and constitutional norm and were sheltered from any popular-democratic control. As was seen, the change in referendum legislation was primarily about imposing legal barriers to any social force that might seek to turn the reform direction from the path of neoliberal austerity policies. Finally, the accelerated liberalisation of the Slovenian economy should also be set in the context of another wave of uneven rescaling of the Slovenian state apparatuses: the fiscal policy, labour market, and wage setting, as well as macroeconomic policy in an increasingly general sense, have become supervised and controlled by the European executive (DC ECFIN) working in close collaboration with the domestic executive.

Emulating the German ordoliberal political economy, the structural reforms implemented since 2010 were supposed to generate grounds for a more sustainable accumulation regime and sought to improve the competitiveness of the Slovenian economy and secure its financial stability. Therefore, it is worth examining how the ordoliberal remodelling of the Slovenian state apparatuses reshaped the pre-crisis accumulation regime and the mode of international integration.

6.3.2. Deepening of economic dependency by copying the German regime

In terms of developmental strategy, the dominant reform agenda pursued by the Slovenian-European ensemble of ordoliberal apparatuses considered that the best way to ensure a more sustainable recovery was to copy the practices of the European hegemonic power and to "follow the strategy, even if socially and politically costly, that finally benefited the German economy so much" (Boyer 2012, 285). To examine how and to what extent the chosen anti-crisis strategy reconfigured the structural features and the underlying weakness of the Slovenian economy, the analysis builds on the methodological approach proposed by Stockhammer, Durand, and List (2016).

These authors study the articulation of the growth trajectories of the European economies along three dimensions: working-class coherence,[68] industrial upgrading,[69] and financialisation.[70] The proposed classification makes it possible to link the discussion here with the characteristics of the pre-crisis accumulation regimes and forms of development that shaped the Slovenian trajectory studied in the previous chapter (Section 5.3). As has been

[68] Working-class coherence captures the relative development of the living conditions of the working class, and refers to the degree of unity or segmentation of the working class and its organisational capacities to defend its interests. The following variables are taken into account: growth of real and nominal wages, wage dispersion, the share of social expenditure relative to GDP, and the density of trade unions (Stockhammer, Durand, and List 2016, 8).

[69] The category of industrial upgrading describes the characteristics of industrial formation and the position of the national economy in a given international division of labour. The growth of labour productivity, the share of manufacturing in value added, and the inward FDI stock are taken as proxies to capture the changes in industrial structures (Stockhammer, Durand, and List 2016, 9).

[70] The following variables are considered: household debt and private loan growth to enterprises, real estate and stock prices, and the net international investment position (NIIP) (Stockhammer, Durand, and List 2016, 9).

seen, the pre-crisis export-led and jobless industrialisation with dependent financialisation was related to the particular form of working-class restructuring shaped by intensification of work and more or less secured income. However, whereas Stockhammer, Durand, and List (2016) explore international asymmetries during the pre-crisis boom in selected European economies, the discussion here focuses on changes within the Slovenian economy taking place in a period of deep crisis and sluggish recovery. For these reasons, some variables are changed and/or complemented with additional ones. Wherever possible, the period between 2009 and 2015 is studied.

By building on the erroneous assumption that the macroeconomic constellations in Slovenia and Germany are more or less the same, the dominant economic agenda not only widened the gap between the economic structures of two economies but also tended to create new weaknesses, which were mostly manifested in terms of public debt burden, collapsed investments, and heightened dependency on foreign capital and demand.

6.3.2.1. Working class precarious in-coherence

The dominant economic agenda set the downward adjustment of the labour market and wages as a prime instrument of economic recovery by the way of improved price competitiveness. Against the background of struggles and institutional remodelling studies above, these downward adjustments took a triple form. Whereas organised labour and resistance from the broader population prevented large(r) collapse of wages and household purchasing power, the implemented reforms nevertheless enhanced the structural precarisation of labour and rising inequalities at the same time as the effective capacities of workers to assert their interest tended to diminish further.

Table 16 **Working class coherence, 2009–2015**

	2009–2015 change	2015 level
Real wage, growth	3	/
Δ Social expenditure, % of GDP	0.5	23.7
Δ Wage dispersion, pp	–1.1	0.23
Unemployment rate, growth	52.5	9
Δ Trade union density	–16	19

Note: Δ denotes change in percentage points, growth is given in %. Real wage refers to real average annual wages per full-time and full-year equivalent employee in the total economy and is given in 2015 constant prices and NCU.
Sources: Social expenditure and at-risk-of poverty rate (Eurostat), wage growth (OECD.stat), unemployment rate (SI-STAT), trade union density (Broder 2016, 41).

In 2015, the average real wage was slightly higher than before the crisis because the wage had decreased for only two consecutive years, in 2012 and 2013. As can be observed from Table 16, wage dispersion declined, implying that wage inequalities reduced during the crisis. They did, but the adjustment was made downwards. The increase in the minimum wage meant that more workers were earning only the minimum wage (IMAD 2016, 62). During the austerity drive from 2010 to 2013, the wage cuts were particularly important between public sector employees (IMAD 2016, 58). In addition, the 2013 labour market reform provided a new boost for low-paid employment (IMAD 2016, 58). In 2015, almost three out of four new job positions were offered for a temporary period; again, youth were particularly affected and Slovenia has continued to have the highest share of young workers employed on temporary contracts in the EU (IMAD 2016, 57).

Finally, many low-paid workers lost their jobs at the outbreak of the crisis. Due to austerity measures, the unemployment rate of 9% in 2015 was still more than twice as high as in 2008 (4.4%). The number of workers looking for a job for more than three years tripled, and most of them used to be employed in construction and manufacturing, where employment fell by a fourth between 2008 and 2015 (Trbanc et al. 2016, 18-19).

In fact, the living conditions of all social groups that were dependent on state provisions worsened considerably. Focused on price competitiveness and fiscal stability, the dominant policy agenda succeeded in reducing state expenditures for welfare when they were most needed; after increasing by three percentage points between 2008 and 2009, social expenditures as a share of GDP practically stagnated. This means that, among other things, in 2015, when 91,000 people were registered as unemployed, the state dedicated a similar amount of expenditures for unemployment as in 2009, when the number of registered unemployed was about a third lower (SI-STAT). Given the fact that welfare provisions were the main income equaliser mechanism, it is probably not surprising that between 2009 and 2015 Slovenia experienced an above-EU-average increase in income inequality, as well as in the at-risk-of-poverty rate. This rate increased by almost a third to reach 14.5% in 2015, echoing the extent of the social deterioration from the early 1990s (IMAD 2002, 65, 2016, 63-64, see also Breznik and Furlan 2015, 212-213). The pension market reform was particularly harmful for retired (female) workers; one out of four retired women are now threatened with living in poverty (IMAD 2016, 62).

In contrast to the labour militancy from that period, the capacity of the working class to reverse these trends weakened considerably, especially if measured in terms of trade union density. Economic instability, increased unemployment, and job insecurity also had an impact on the Slovenian trade union landscape (Stanojević 2015, 411-13). The trade unions faced a steep decline in number of members: in 2009 trade union density stood at 35%, but this share decreased below 20% by 2015 (Broder 2016, 41).

Such a structural degradation of working and living conditions was directly linked to the prevailing industrial strategy and state intervention, which was focused mainly on securing legal conditions for further work intensification and foreign capital input.

6.3.2.2. More foreign capital for less technological restructuring

The main trends with respect to the transformation of the Slovenian industrial structures are shown in Table 17. Although in relative terms the industrial potential of the economy improved with the manufacturing value added share going up from 20% to 23% of GDP, by 2015 neither the manufacturing output nor the absolute manufacturing value added exceeded their pre-crisis levels (OECD.Stat) in spite of the restored export dynamism. In fact, from the outbreak of the crisis onward Slovenian industrial capacities narrowed and specialised further in line with the German demand.

Table 17 **Changes in industrial upgrading, 2009–2015**

	2009–2015 change	2015 level
Productivity, growth[1]	7.3	33.5
Inward FDI stock, EUR billion, growth	45	11.5
Outward FDI stock, EUR billion, growth	−11	5.4
Δ Net FDI stock, % of GDP	−10.2	−15
Δ Manufacturing, VA, % of GDP	3.7	23
Δ Exports, % of GDP	22.5	77.9
Current account, % of GDP	−0.6[2]	5.2

[1] Gross domestic product at 2005 market prices per person employed. In EUR '000.
[2] The 2009 level is provided.
Sources: Productivity (AMECO), FDI stock, EUR billion (Bank of Slovenia 2016b, 39, 65), Net FDI stock, % of GDP (UNCTAD.Stat), Manufacturing VA (WDI), Current account (Eurostat).

Technologically less advanced firms whose production was already decreasing during the 2000s either went bankrupt or cut their production even more substantially[71] (Damijan 2004, 339-40, Drenovec 2013, 179). In contrast, sectors that were deeply integrated into the German production network expanded: the output of repair and installation of machinery increased by about two-thirds, followed by the electrical equipment sector, which expanded by 7.5% (SI-STAT).

As in the past, the productivity gains were mainly achieved through work intensification, resulting from a reduction in the number of employees and more intensive use of labour (OECD 2015, 63). Exceeding wage growth, productivity rose by 7% between 2009 and 2015, when it already surpassed the 2008 level. In fact, according to the IMAD, by "2015, unit labour costs in manufacturing fell far below the pre-crisis level (2007), while in the EU, they were slightly higher, which shows a major increase of the cost competitiveness of goods exporters in this period" (IMAD 2016, 37). Technological restructuring was therefore limited, if it occurred at all, and this explains why the Slovenian export profile did not improve during the crisis but only consolidated its specialisation in medium-technology intensive products (IMAD 2016).

Further productive specialisation and limited technological restructuring were directly linked to the weaknesses of the FDI-oriented industrial upgrading strategy. As can be observed from Table 17, the position in the international flows of productive capital (FDI) changed substantially in the late 2010s; by 2015 in value terms, the country received more than twice as much investment than the domestic enterprises invested abroad. Note, in addition, that about a quarter of investments abroad were actually realised by companies in Slovenia that ultimately belonged to foreign owners (Bank of Slovenia 2016b, 32). The crisis more or less brought an end to the debt-fuelled imperialist aspirations of the leading home-grown MNC in the banking and retail sectors, which contributed most to the disinvestment of the Slovenian economy from foreign markets.

In contrast, between 2009 and 2015 over EUR 1 billion of FDI flowed into the Slovenian economy: almost one-third out of EUR 11.6 billion of IFDI stock in 2015 was concentrated in financial intermediation (except insurance and pension funds) and over 21% and 18% in retail

[71] In terms of output, the textile and wood industry fell by 75% and 63%, respectively, between 2009 and 2015 (SI-STAT).

and wholesale trade (except motor vehicles), respectively (Bank of Slovenia 2016b, 20). Likewise, the leading three countries of the German core (Germany, Austria, and the Netherlands) continued to control almost half of the total FDI stock (Bank of Slovenia 2016b, 18). Considering such an FDI investment strategy, the prospects of climbing on the commodity-chain hierarchy remained meagre because “post-crisis” foreign investors tended to set up their businesses in less knowledge-intensive and lower value-added activities (Medve-Bálint 2015, 89).

With respect to the limits on industrial upgrading, it is worth recalling the impressive collapse of investment that contracted annually by an average of 6.6% between 2009 and 2015 (SI-STAT). In fact, investment (measured as fixed capital formation) decreased from 30% to 15% of GDP between 2009 and 2015 and reached its lowest point since the exit of the Slovenian economy from the radical economic surgery in the early 1990s (SI-STAT). The depressed investment could be further constrained by industrial upgrading.

The observed pattern in precarious working class restructuring and industrial downgrading also provide a hint to the character of the stunning current account surpluses. As Bole (2016) highlights, the lion’s share in the accumulation of the current account surplus was not provided by export manufacturing but by the policy-induced depressed local demand. Rather depressed final domestic consumption – annually down by an average of 0.2% between 2009 and 2015 – and a dramatic fall in investment contributed much more to the stabilisation of the balance-of-payments situation than goods exports did during most of the period studied. It was only in 2013 that the country started to have a positive record on goods, which additionally fuelled the unprecedented current account surplus (Bole 2016, 17-22, IMF 2016, 6-7).

Against the background of the collapse of less-competitive production and many firms supplying mainly domestic markets, the extraversion of the Slovenian economy grew further, and by 2015 exports represented close to four-fifths of total economic output.

6.3.2.3. The emergence of public debt and the collapse of corporate crediting

In many regards the trends in working-class restructuring and industrial upgrading did not differ much from that observed in the period before the crisis. In contrast, as indicated by Table 18 the patterns of financialisation changed substantially.

Table 18 **Trends in financialisation, 2009–2015**

	2009–2015 change	2015 level
Δ Household debt, % of GDP	−1.2	31.4
Δ Government debt, % of GDP	44.8	87.3
Δ Non-financial corporations, % of GDP	−22.7	147.6
Δ Monetary institutions other than central bank, % of GDP	−32.8	92.1
Δ Private credit, % of GDP	−33.1	50.2
Δ NIIP, % of GDP	4.6	−38.7

Note: Calculations provided on consolidated data.
Sources: The structure of debt (Eurostat), Private credit (WDI), NIIP (Eurostat).

The structure of indebtedness is studied first. Both banking (proxied by monetary institutions other than the central bank) and the corporate sector reduced their debt obligations, relative to GDP, by almost 33 percentage points and 23 percentage points. Most of the corporate debt was reduced by winding down of enterprises.[72] By 2015, the corporate debt-to-GDP ratio actually fell to the level it achieved in the early 2000s, preceding the pre-crisis boom (Bank of Slovenia 2016a, 15-16). The (excessive) indebtedness remained concentrated in a few companies oriented to domestic market, whereas the majority of most performing (export-oriented) firms was financially stable (Kordež 2014, 51, IMAD 2016, 30-32). The banking sector, however, mostly reduced its liabilities by transferring losses to state finances (Drenovec 2015, 157-58); between 2009 and 2015, the recapitalisation of banks and interest rates were prime drivers of the quadrupling public debt, which stood at over 87% in 2015.

A strong contraction of lending activities of banks was another important characteristic of financiarisation during the crisis: between 2008 and 2015, loans to the private sector decreased from 82% to 50% of GDP, thus descending below their level from 2005. Correspondingly, the loans-to-deposit ratio fell from 150% in 2011, when it was at its peak, to 94% in 2015, and the banks' total assets contracted by about a third (IMAD 2016, 102). After

[72] Firms that were winding down between 2009 and 2016 accounted for EUR 5 billion of the exposure of domestic banks. By 2016, the domestic banking sector's exposure to construction firms, standing at EUR 3.2 billion in 2009, fell to 19%, and exposure to manufacturing, standing at almost EUR 6.6 billion in 2009, to 52% (Bank of Slovenia 2016a, 16).

contracting by 4.6% in 2012, loans to the non-banking sector decreased further by 6.9% and 9.8% in 2013 and 2014, respectively (OECD 2015, 23). The fact that neither the economic stabilisation nor the expansionary policy of the ECB reversed the negative trends in banking loan activity might be attributed to several factors: banking operations were under the commitment that the Slovenian government gave to the EC for its approval of state aid in 2013. The government required comparatively higher returns on new corporate loans, "which, in the low interest rate environment, have become unattainable" (Bank of Slovenia 2016a, 18, cf. Breznik and Furlan 2015, 213). These constraining single-market rules further pushed banks to maintain high loan and capital adequacy standards, which in turn reduced the scope of economic actors eligible for a new loan. [73]

On the other hand, the demand for loans considerably diminished following the collapse of investment and low household consumption (Štiblar 2016, 32, Mencinger 2016, 41-42). Moreover, according to the Bank of Slovenia (2016a, 15-17), domestic banks also lost a certain proportion of their demand as a result of the sectorial and ownership restructuring of the economy and consequent changes in the models of firm financing in favour of loans from foreign firms. By 2016, the proportion of equity held by foreigners in non-financial corporations increased to almost a quarter, whereas the share of the state decreased to 21%. The state share is in fact much lower because that figure also includes the BAMC assets (Bank of Slovenia 2016a, 19). Likewise, the deal on NKBM alone reduced the market share of state-controlled banks from about 61% to 50% of assets in 2016, and the privatisation of the NLB Group, still pending at the moment under the supervision of the EC, would further reduce it to 27% (Reiffeisen Research 2016, 35-36).

Therefore, the share of loans from foreign firms rose by 135% from the end of 2011 and reached EUR 2.7 billion in September 2016. By 2016, the loans of non-resident lenders to Slovenian firms already represented almost 30%, and those coming from the domestic banking sector accounted for 38%, down by 24 percentage points since 2008 (Bank of Slovenia 2016a, 16). Note that the shift away from domestic banks and/or international markets for rising corporate investment in favour of foreign firms was characterised as one of

[73] At the same time, according to Kordež (2015, 8-9), in the context of low interest rates, abundant liquidity, and low corporate demand, the Slovenian banks started to prefer investment in government bonds, in particular after 2013, in order to take advantage of low yields. Amounting to over EUR 8 billion, such lending to the state by banks almost reached the level of loans to the corporate sector in 2015.

the crucial institutional specificities of firm financing in the Visegrád four, confirming their structural dependence on foreign capital (Nölke and Vliegenthart 2009, 677).

Thus, while the trends in financialisation of the Slovenian economy changed significantly in the late 2010s, with the rise of public debt and changing patterns of lending, the country's international financial position as a net borrower has not experienced any major changes. Between 2009 and 2015, Slovenia's NIIP went up by a mere 4.6 percentage points. Representing almost two-fifths of the country's produced wealth, the foreign liabilities of the country (38.7% of GDP) in 2015 were only slightly below their 2008 level, when they stood at 39.4% of GDP.

Therefore, the dominant economic agenda, which favoured external demand and labour devaluation and exhibited a strong anti-Keynesian bias, was unable to create conditions that would secure sustainable recovery and narrow the structural gap between Slovenia and the European core. In fact, by favouring external demand, promoting labour devaluation, and exhibiting a strong anti-Keynesian bias, the chosen strategy, emulating the current German experience, actually complemented and exacerbated the inherited weaknesses of the Slovenian economy with new ones. The most remarkable change in this respect was the creation of public debt and the shrinking of domestic sources of financing. Given the ordoliberal character of the Slovenian macroeconomic policy and the limited – if any – capacities of Slovenia to regulate economic activity in line with domestic needs, there seemed to be little manoeuvring space for reversing the observed trends of increasing economic dependency, especially on the German core countries, and consequent structural asymmetries.

Thus, by copying the German "model", the Slovenian authorities pushed the Slovenian economy even further away from Germany at the same time as they made Slovenia even more dependent on Germany. Such a strange mix of a fragile recovery and greater structural asymmetries could actually be attributed to the Eurozone space as a whole. It is time to discuss the regressive character of socioeconomic restructuring in Slovenia in relation to European interdependent asymmetries.

6.3.3. The European asymmetrical interdependencies in crisis

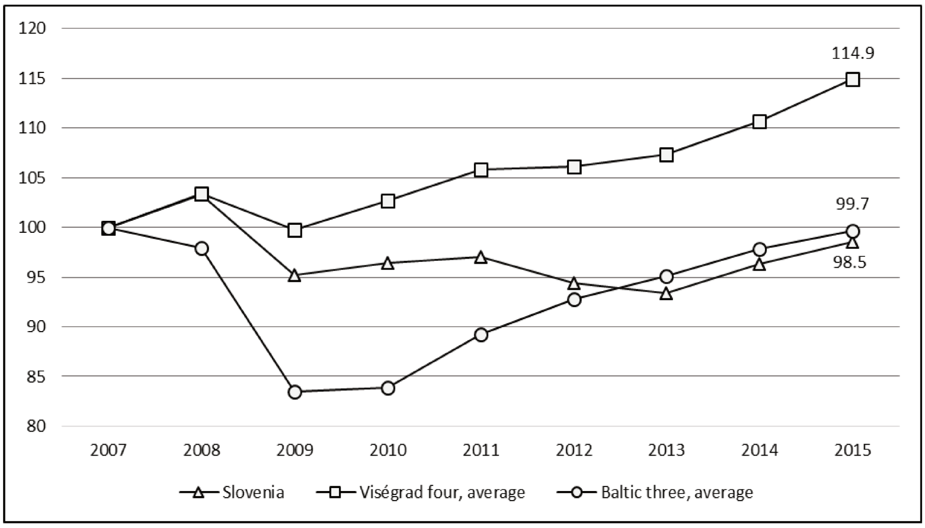
Lehndorff (2015a) emphasises that, as the Eurozone crisis unfolded, it became more necessary than ever to consider the "interaction between economic and institutional changes, both within countries and between countries and the EU" (Lehndorff 2015a, 13). Therefore, to conclude the discussion on the regressive character of the structural changes during the Slovenian Eurozone crisis, a relational and comparative account of the Slovenian trajectory during the crisis is proposed here. The aim here is not to provide an in-depth account on the trajectories of the European countries' trajectories under the NEEG. Instead, this part seeks to highlight that any analysis of the trajectory of the Slovenian economy during the recent crisis should consider its international co-constitution and contextualise the Slovenian economy within the peculiar dynamics of the crisis after 2007–2008 in Europe. To do this, this section brings into relation diverging national trajectories in terms of the restoration of the pre-crisis level of economic output.

6.3.3.1. Slovenia's lost decade

For Štiblar (2017, 35), the "crisis" period in Slovenia can be described in terms of a "lost decade", which echoed the experience of the "structural adjustment programs" under the WCA, adopted in Latin America – as well as in Yugoslavia – in the 1980s (cf. Hermann 2017). The post-euro "Slovenian lost decade" refers not only to a rapid increase in poverty and expanding liberal precarisation of the labour market and social security system, but also to the fact that by 2015 the level of the country's economic output still remained below its pre-crisis level from 2007, let alone 2008. In fact, as might be observed from Figure 28, the chosen anti-Keynesian policy approach made the Slovenian economy the worst performer in the region. In addition, in terms of the pace and extent of economic recovery, Slovenia also performed worse than its peers from the Baltic region, although the Baltic countries were the most affected by the outbreak of the crisis.

Under the burden of a massive accumulation of foreign-exchange loans, the Baltic countries on average experienced the largest decline of GDP in 2009 on a European-wide level. In a period of just two years, these countries faced such a collapse that it could only be compared to the one Greece faced after several years of the Troika-dictated "bailout programmes" (see below). In fact, Latvia was among the first countries that had to resort to the financial program under IMF-EU supervision, which existed before the formation of the Eurozone Troika but followed the same policy to prevent currency devaluation and to protect the liabilities of Western European banks (Becker 2016, 60). Nonetheless, since 2010, the countries' economic output improved steadily.

Figure 28 **GDP, Slovenia, Baltic states and Viségrad states, 2007–2015, volume index change, 2007 = 100**



Source: OECD.Stat. Author's calculations.

In the four countries from the Visegrád region, the crisis was on average less severe; with the exception of Hungary, these countries accumulated lower foreign debts, and, with the exception of Eurozone member Slovakia, they had greater manoeuvring space for managing the crisis. Indeed, the "heterodox" policy trajectory of Poland is particularly instructive to underscore the one-sided and pro-cyclical aspect of the strengthened euro regime. Poland was the only country in the region that did not experience a drop in GDP in 2009, and by the middle of the decade it became one of the best-performing European economies, together with Ireland. According to Becker (2016, 60-61), "Poland's relatively strong performance […] was greatly assisted by its flexible exchange rate [...] The Tusk government verbally adhered to the austerity discourse but did not apply it in practice […] which cushioned domestic demand" (for the counter-cyclical policy of Polish banks see Epstein 2013, 534-36, for government anti-crisis policy see Myant, Drahokoupil, and Lesay 2013, 392). Consequently, Polish manufacturing was able to benefit from the larger domestic market, making it less exposed to the fluctuations in the European core economies (Becker 2016, 61).

Thus, after 2010, Slovenia maintained its position of a regional outlier; yet, in contrast to the past, this position no longer referred to its outstanding prosperity and stability, but to its economic instability and decline. Consequently, the developmental gap between Slovenia and the leading European countries expanded anew. After several years of falling behind the EU average, the GDP per capita in terms of purchasing power remained far behind the 2008 peak, when it reached 89%. By 2014, the former decreased to 83% of the European average; that is, to the level Slovenia reached in 2003, a year before joining the EU (IMAD 2016, 35).

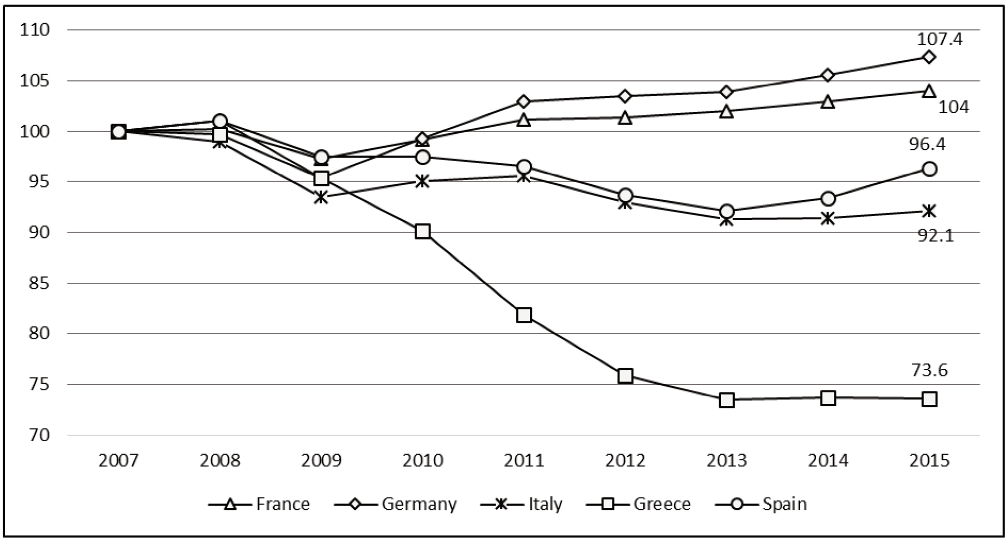
In fact, the strengthened euro regime in most countries prolonged or simply "transformed" the crisis, instead of resolving it. Speaking of the stronger economic performance of the Visegrád and Baltic countries, it should however be mentioned that in most cases this performance came at the expense of degrading the living standards of the local working class and "exporting" workers. All governments were led to adopt austerity measures, although to varying degrees. For instance, it is estimated that without high emigration of mostly educated youth, the unemployment in Latvia might be 6% higher (Becker 2016, 59).

6.3.3.2. Stagnating core and declining Southern periphery

Figure 29 shows the change in GDP volume index between 2007 and 2015 for selected core countries and those that were part of the so-called PIIGS group.

In the late 2010s, and particularly after the launching of the NEEG, the cleavages among the peripheral economies increased. As late as in 2015, the economic output of Spain still did not reach its pre-crisis level, despite recent improvement. However, in no country was a vicious circle of austerity-recession-austerity so powerful as in Greece, where, according to (Lapavitsas, Mariolis, and Gavrielides 2017, 13), the social and economic destruction "approximated the magnitude of war destruction". Karamessini (2015, 119-121) reports that after five years of austerity-based debt-repayment policies the Greek GDP shrunk by over 20%, the average real wage fell by more than a quarter, and over a third of the population was believed to be living in poverty.

Figure 29 **GDP in selected European countries, 2007–2015, volume index change, 2007 = 100**



Source: OECD.Stat. Author's own calculations.

However, as can be observed from Figure 29, after the launching of the European Semester the gap between the core economies was increasing rapidly as well, with France and Italy having increasing difficulties in coping with German competitiveness (Lapavitsas, Mariolis, and Gavrielides 2017, 12-13). In fact, already gravely affected by the outbreak of the crisis, Italy was plunged into a deep recession after the technocratic government of Mario Monti implemented the third and tightest austerity measures program in 2012 and further liberalised the labour market and pension system to calm financial markets (Simonazzi 2015, 78-79). Italy's GDP declined steadily, decreasing by almost 10% between 2007 and 2015.

In contrast, the German-centred production machine could compensate for the fall in European demand by expanding its extra-EU exports, in particular to the BRICS (Becker, Jäger, and Weissenbacher 2015, 88), and could "avoid what other – sometimes even less indebted – countries were obliged to do: introduce drastic austerity programmes" (Lehndorff 2015b, 165), as well as "structural reforms" that would further reduce local demand. That said, the shift toward a greater reliance on domestic demand in Germany was "still much too weak, and the import deficit" remained too high to achieve "balanced economic development in Germany and Europe" (Lehndorff 2015b, 169).

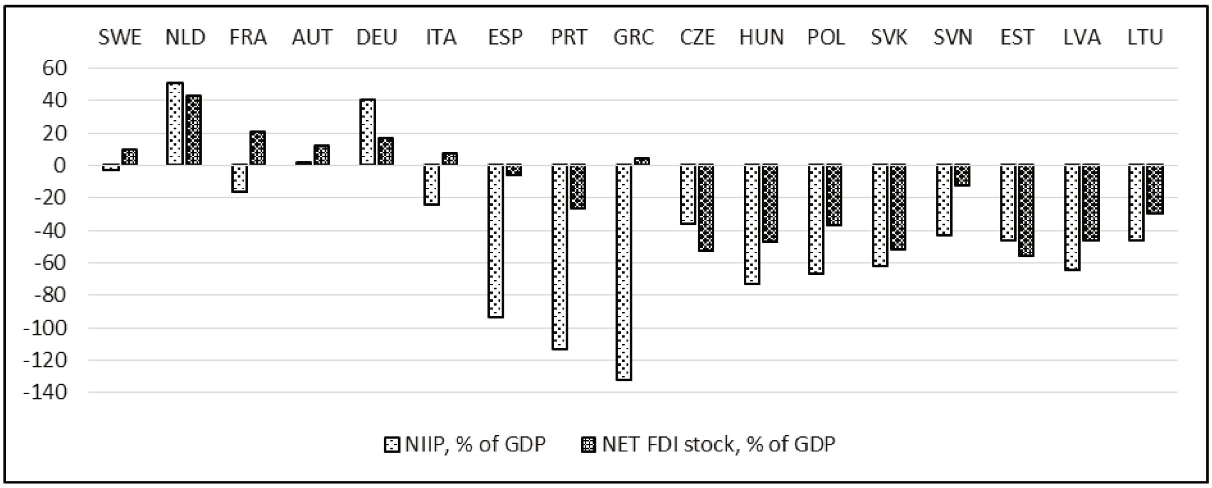
Thus, while the growth of the core was stabilised on a very fragile basis, the recovery in peripheral countries was very variegated, depending mostly on inherited indebtedness, the severity of austerity measures implemented and labour-cost-reducing reforms, a more or less developed industrial base, and its integration into a German-centred production core (Jäger and Springler 2015, 230). The negative spiral of a prolonged crisis was related, among other things, to the negative effect on income redistribution, provoked by the fiscal conservatism in the time of crisis (Lehndorff 2015a, 16). The erosion of welfare standards in a period of rising unemployment interrupted the income convergence between European countries, which used to be driven by a debt-based catch-up process in peripheries after the launching of the euro. In the first half od the 2010s, however, in two-thirds of European countries, mainly peripheral ones but also some core economies, like Germany, inequalities in household-disposable income expanded again (Eurofound 2017, 1-2). In most cases, the stabilisation of the crisis was therefore achieved at the expense of decreasing living standards, in particular among the working class and parts of the petty bourgeoisie at the periphery, including the Slovenian one (Becker, Jäger, and Weissenbacher 2015, 91).

6.3.3.3. Consolidation of core-periphery divide

Income asymmetries were not the only thing that expanded after the late 2000s. In fact, the policies that transferred most of the burden of the adjustment to the crisis onto deficit countries and popular masses mainly consolidated a very heterogeneous character of the European economic structures and made different development patterns in the core and periphery more apparent (Becker, Jäger, and Weissenbacher 2015, 89-90).

"Despite the discourses which proclaim the end of the crisis, the so-called anti-crisis policy continue to deepen polarisation in Europe" (Jäger and Springler 2015, 230). Indeed, a quick overview of the position of national economies within the European division of productive and financial capital flows in the mid-2010s clearly indicates that the so-called anti-crisis management mainly reinforced pre-crisis structures and patterns of dependency. Figure 30 provides information on the average NIIP and net FDI stock positions of selected European economies between 2013 and 2015. The accumulation pattern in the CEECs continued to be characterised by a mix of foreign-led industrialisation and financialisation (Becker 2016, 61), while the "southern" Eurozone periphery faced significant foreign debt burden. The crisis also reinforced the already existing cleavages within the European core (see Section 5.3), with Italy, and to a smaller extent France, becoming its troubled members, while the countries of the German-centred production consolidated their hegemonic position (Lapavitsas, Mariolis, and Gavrielides 2017, 18).

Figure 30 **NIIP and FDI stock, % of GDP, selected EU countries, 2013–2015 averages**



Sources: NIIP (Eurostat), FDI stock (UNCTAD.Stat).

As far as Slovenia is concerned, the country seems to continue to stand at the European post-socialist periphery, especially with respect to the dependency on foreign productive capital inflows. Whereas the average net FDI stock in the Visegrád four exceeded 47% of GDP between 2013 and 2015, in Slovenia it represented less than 13% of the total economic output. It is, however, worth recalling that the bulk of the processes of privatisation and selling of domestic firms to foreign investors started in 2015. In 2016, the Slovenian net FDI stock already came close to 20% of GDP (Bank of Slovenia 2017, 15, 29).

Thus, insofar as "[t]he so-called anti-crisis management […] aimed at restoring pre-crisis structures" (Becker, Jäger, and Weissenbacher 2015, 89), European policy-making under the provisions of the NEEG could be deemed to be successful. The Troika interventionism and the coordination of macro-economic policies of member states within the European Semester, based on a one-size-fits-all approach, heightened polarisations, economic but political as well, among the European economies. Discussing the notion of "divisive integration" Lehndorff (2015a, 8) argues that "[t]he most dangerous implication of [austerity] policy approach […] is that it is driving European countries apart—misleadingly in the name of 'Europe'". Seven years after the outbreak of the crisis, the European economic space remained economically fragile, political polarised but deeply interdependent shaped by the core-periphery structures.

Conclusion

The outbreak of the crisis in the late 2000s opened a new phase in the development of capitalism in Slovenia. The plummeting GDP in late 2008 and 2009 brought forward all contradictions that shaped the restoration of capitalism under the aegis of the European integration project. The fact that in 2009, Slovenia experienced by far the largest contraction of economic output among the Eurozone countries, and also, as it was seen, among the EU countries, was symptomatic of the economic and political weaknesses that the country accumulated during its "return to Europe", and that were related to dependent integration in the German export-oriented machinery, as well as to a macro-economically dysfunctional, dependent and uneven remaking of state apparatuses under the EMU regime. Although it became clear that the loss of political sovereignty over monetary policy, exchange rate mechanism, liberalisation of financial markets, as well as over state aid mechanism, were rather the factors that aggravated the crisis outbreak in Slovenia, domestic leaders nevertheless decided to deepen the integration of the country into the European integration project under the NEEG provisions. The aim of this chapter was to resolve this political puzzle and to examine how the deepening of the European integration impacted the economic and political dynamics in Slovenia, and to what extent the re-making of the state apparatuses under the NEEG succeeds to address the structural weaknesses of the country's developmental trajectory.

To do this, the unfolding of the Slovenian Eurozone crisis has been studied in three steps. The discussion has firstly shown that the NEEG provision only strengthened the dysfunctional character of the EMU asymmetrical state-building; heightened supervision of "national" macroeconomic policies on the European level, austerity-based and one-size-fits-all policy approach, as well as the reluctance over the ECB status, played decisive roles for the fact that the crisis in Slovenia took the form of a double-dip recession that expanded on the banking sector and public finances. However, the precise extent and depth of the economic and financial hardships were, to a large extent, related to local struggles over the extent and depth of labour devaluation, e.g. over the use of the main instrument that remained under the control of domestic authority. The crisis in Slovenia was the Eurozone crisis; not only in terms of economic and financial developments, but also as far as the political dynamics is concerned.

The second section thus argued that the intense political hardship that shaped the unfolding of the Slovenian Eurozone crisis was part and parcel of the European bureaucratic Caesarism. The NEEG provisions, and the European Semester procedure in particular, created new institutional channels that helped Slovenian ruling classes to undermine local institutional and class-power obstacles towards a further liberalisation of the Slovene labour market and welfare state. However, the attempts to use the crisis as an opportunity to accelerate the subordination of labour market institutions and their representatives to the concerns of price competitiveness and monetary-financial stability faced considerable resistance. Given the limited abilities of the Slovenian state to forge social compromises, the latter were, to a large extent, overcome by an impressive acceleration of the authoritarian remaking of domestic macroeconomic and policy-making structures.

Finally, the strategy to continue using the European integration project as a strategy to weaken domestic resistance to the transformation of labour in the main adjustment variable of external (price) competitiveness impacted, in turn, the capacities of domestic policymakers to cope with the structural problems of the Slovenian economy. As was shown in the last section, the chosen economic policy, which had a significant anti-Keynesian bias, particularly favoured the interests of domestic factions of export-oriented capital: following the logic of regressive socio-economic restructuring, dominant economic policy heightened the pre-crisis trends with respect to the precarisation of labour and dependency on foreign capital input and led to the emergence of public debt and a reduction in banks' lending activities. In other words, since the NEEG significantly narrowed the scope for a relatively autonomous space for policy-making and did not allow for any major deficit-spending policy, necessary for the re-building of productive capacities and skills on a more sustainable basis, the reform programmes of Slovenian governments did not resolve underlying weaknesses associated export-oriented industrialisation with no jobs and dependent financialisation. Instead, it seems that the latter were only displaced with the transfer of private into public indebtedness and the export boom of the German core production network.

The crisis period offered powerful insights into the vicious circle of class, political and economic mechanisms that underpinned the development of peripheral capitalism in Slovenia: by using the European integration project as a strategy to weaken domestic labour, the Slovenian ruling classes in turn weakened domestic state capacities to deal with the weaknesses of domestic economic structures. Since the main "cure" that the asymmetrical

EMU state-building proposes to the European developmental “latecomers”, is to rely on foreign demand and capital, intensification of work, and precarisation of labour as main instruments for achieving international competition, the convergence in terms of living standards and productive capacities could only be limited. Finally, the crisis also revealed that the main policy solution to political and social tensions that are produced by such a developmental class strategy, is the undermining of democratic principles, either by straightforward authoritarian ruling or by an ordo-liberalisation of state apparatuses, or by a combination of both.

CONCLUSION

In order to understand the puzzle of contrasting developments in Slovenia before and after the outbreak of the 2007/08 global crisis, this thesis has followed the suggestion of Močnik (2006) that the post-socialist development of Slovenia should be considered in the light of the neoliberal restructuring of the world economy since the late 1970s. The thesis has started by taking insights from the VoC debate over the theoretical and empirical examination of capitalist diversity in the post-socialist region, and engaged in the elaboration of a new framework that builds on a theory of capitalist institutions and renews the twin concept of international dominance and dependency. The examination of the Slovenian trajectory through the lens of a Marxist-grounded double transition approach has brought new empirical and theoretical insights into the Slovenian exceptional trajectory, dependent capitalist diversity in the post-socialist countries, as well as the uneven development in Europe.

The main argument

The thesis has been exploring the interaction between three changes that have shaped the Slovenian trajectory during the last thirty years: change at the level of the socio-economic system, change in the international insertion of the Slovenian economy, and change in the form of political integration in favour of the European integration project. Assuming that the system established in post-war Yugoslavia was non-capitalist, this thesis has brought forward a two-fold argument, theoretical and empirical.

Theoretical argument

It has been claimed that a theoretical framework that builds on the insights from Marxist-grounded debates on the emergence of capitalism in feudal Europe, imperialism and the European integration project, and that is able to incorporate elements from the institutionalist analysis, could best capture the unique character of the development of peripheral capitalism in the post-socialist region after the end of the 20th century.

The concept of *neoliberal primitive accumulation* helps to explain the complex and class nature of institutional change in the CEECs, shaped by a systemic change towards the establishment of a capitalist private property regime and the ongoing institutional re-arrangements of nascent capitalist, influenced by European integration. The systemic change is explained in terms of contradictions inherent to socialist regimes, which intensified with the outbreak of the 1980s debt crisis, the remodelling of states under the WCA, and changing international conditions linked to realisation of the global capitalism project and the spread of various extra-economic methods aiming to restore profits.

The concept of neoliberal primitive accumulation helps to understand the conflictual and contingent nature of the restoration of capitalism in the post-socialist region: far from being the result of some pure interplay of market forces, or of the economically ineffective and politically totalitarian nature of socialist regimes, the property change and the shift in insertion into the international division of labour were the consequences of a historical interplay between internal and external factors and a long and painful struggle for a fundamental reorganisation of socialist economies at the expense of the social and democratic rights that working classes gained during post-war industrialisation. Notwithstanding pressures from international actors, especially the IMF, the systemic socio-economic change was led by the (socialist) state itself and its legislative power. Finally, by considering the integration of socialist states into the global capitalism project as one of the key dimensions of the restoration of capitalism in the CEECs, the concept of neoliberal primitive accumulation also allows an exploration of the interaction between struggles and political compromises in relation to the structural hierarchy of nascent capitalist states and the changing international insertion of "their" respective economies.

In fact, the adapted concept of *dependent integration* that builds on a power-relational understanding of international dynamics, and which considers European integration as a regional guarantor of the reproduction of global capitalism, helps to bring out the systemic and institutional dynamics of the CEECs in relation to a deepening of the dependent integration of these countries into the European politico-economic space. By considering contemporary dependency relations as being politically co-constituted, shaped by regulatory changes and three international economic channels (international trade, FDI, money capital), the dependent integration concept helps to consider the interaction between domestic social struggles and structures and external, political and economic, constraints. In fact, the proposed concept offers a more comprehensive understanding of the European core-periphery structures and relations because it considers the latter to be simultaneously of an economic, political, as well as class, nature. The European integration project is explained in terms of the systemic needs of capitalist states to cope, economically and politically, with the crisis-prone nature of capitalism and related class conflicts. The main nodal point and concrete mechanisms of the development of peripheral capitalism in the CEECs are therefore located in the European incomplete state-building, based on the single market and the euro project.

Although the proposed theoretical framework focuses on the national-state level it overcomes risks associated with methodological nationalism and considers the development of peripheral capitalism in the CEECs as being co-determined by the realisation of the global capitalism project and the neoliberal remaking of European integration. Since neoliberal primitive accumulation and dependent integration are grounded in a historical, structural, holist and class-relational understanding of post-socialist transition, they allow for the analytical reconstruction of the conflictual interplay between structures and agency that nevertheless operates within the limits of certain social structures. Thus, they are able to capture the variations of historically- and spatially-specific trajectories of the CEECs that are the result of social struggles and political compromises, instead of being determined by some pre-established master plan and/or a voluntary agency of a group of actors.

This thesis has tested the double transition approach on the trajectory of the Slovenian economy since the late 1980s. Because of its exceptional legacy of the Yugoslav social property regime, its exit from Yugoslavia and integration into the European state structures, as well as because of its status as the first post-socialist EMU member and a relatively long period of sustained economic growth after the early 1990s, this economically and politically minor player at the European level is a particularly valuable case study to explore the issues at stake and the mechanisms of the emergence and development of peripheral capitalism in the CEECs.

Empirical argument

At the empirical level, the thesis has argued that during the last thirty years the development of the Slovenian economy has been primarily driven by conflicts over the downward restructuring of labour. Slovenia's path from socialism to peripheral capitalism could take place only as a result of a significant reshuffling of the domestic class-power balance in favour of capital at the end of the 1980s, and the ongoing struggles over the reproduction of this class-power balance in the following years.

What has been mainly at stake during the Slovenian double transition was the remodelling of (Slovenian) state-capital-labour relations and structures in a way that would favour the subordination of regulations linked to the labour market, wages and welfare issues to the exigencies of fiscal and monetary restraint, as well as of global competitiveness. In this regard, a state-authored abolition of workers' councils and the establishment of a formally independent central bank were just as essential as the release of social-owned assets and the transformation of financial and non-financial organisations into profit-oriented institutions. At the same time, these processes went hand in hand with the attempts of the Slovenian ruling classes to overcome domestic (labour) opposition by changing the political integration of the Slovenian economy from federalist Yugoslavia to the EU. Since under the EU/EMU regime, foreign capital and demand have been considered to be the main factors of economic restructuring in the CEECs, while rapid liberalisation and a partial transfer of macroeconomic policy-making to the European level have been seen as the primary instruments for catching-up and coping with heightened competition, the neoliberal remodelling of capital-state-labour relations in Slovenia have been of a peripheral nature.

For the development of peripheral capitalism to take place in Slovenia, nothing other than a radical class-developmental and political break with the past and a demise of Yugoslavia through neoliberal primitive accumulation were needed, as argued in Chapter 4. Whereas the dispossession of farmers from the means of production was the critical aspect of primitive accumulation in feudal England, the key "idyllic moment" of neoliberal primitive accumulation in socialist Yugoslavia implied the separation of economic rights from the political rights of producers/self-managed property owners, bound together in the concept of the social property regime. A key factor in the developmental "blockage" that fuelled this act of legislative violence by the Yugoslav state was not soaring prices, nor the political suppression of individual entrepreneur spirits; instead, it was an intense class conflict, which took the form of the massive resistance of Yugoslav labour to the dominant policy agenda and the remodelling of Yugoslavia under the WCA.

In fact, various different, economic and political, "moments" of neoliberal primitive accumulation had to come into interplay so that the systemic change could lead to the formation of a formally independent Slovenian state and a shift in favour of the export-orientation of Slovenian production – structural adjustment programmes and debt-repayment policies, orchestrated between the IMF and the federal governments to link the Yugoslav crisis-policy- to realise the global capitalism project – were among the decisive "idyllic methods" of neoliberal primitive accumulation. As seen in Section 4.1, austerity-based and export-oriented policies simultaneously prolonged economic hardship, extended market criteria, and weakened the redistributive capacities of the federal state. These developments fuelled the already presented disintegrative tendencies incorporated in the Yugoslav multi-scalar and "divided" state structures, regionalised uneven employment structures and the decentralised system of political legitimation. The uneven (and unequal) "crisis" experiences of the working classes and their pressures divide the political leaders all the more along the lines of federal republics as the one-size-fits-all economic policy went hand in hand with attempts to centralise state structures and control over legislative and macroeconomic instruments.

At the end of the 1980s, when the reforms of the property regime started, the revolt against the loss of the autonomous status of the federal republics – and the related "dispossession" of their respective authorities of the policy tools of their social dominance and control over the restructuring of capital and labour markets – was particularly pronounced in Slovenia. In fact, taking place against the background of a rapidly disintegrating Cold War regime and the launch of the neoliberal remaking of European structures by the single market project, the unfolding of neoliberal primitive accumulation was interdependent with the emergence of new state projects, and this all the more so as the political and economic structures of post-war Yugoslavia lost all legitimacy. In Slovenia, political elites, export-oriented managers and influential representatives of the intellectual elite established a powerful coalition that gained mass support for the separation of the country from Yugoslavia and in favour of joining the European integration project. As seen in Section 5.1, political independence created conditions for new, internal and external, "idyllic moments" of neoliberal primitive accumulation. Radical macroeconomic surgery, pursued by the joint and restrictive cooperation of the newly established centralised fiscal and formally independent monetary authorities, enabled the massive income dispossession of domestic labour, made domestic production collapse, and encouraged the deepening of dependent integration into the European markets via capital and trade flows.

However, the regaining of national-state control over macroeconomic instruments also allowed militant trade unions to gain political recognition and institutional channels to participate in the construction of a new, capitalist order. As argued in Chapter 5, this slight reshuffling of the class-power balance in favour of labour in the mid-1990s, which effectively dragged the country out of its early 1990s crisis, had far-reaching consequences in the "post-Yugoslav" trajectory of the double transition in Slovenia. It led to the formation of two relatively distinctive periods of the structural hierarchy of Slovenian state apparatuses and the corresponding form of international integration. There were, however, two interdependent elements that bound these two periods together, and which started to influence strongly the country's trajectory after the late 1990s: a progressive, yet steady, asymmetrical re-making of the Slovenian state structures in line with the EU/EMU regime, on the one hand, and a progressive, yet steady, weakening of labour in the domestic bargaining arena, on the other.

Risk-sharing cooperation between the political and economic management of labour, and the monetary and competition regimes, defined the hierarchy of the Slovenian state apparatuses after the mid-1990s. This stabilised domestic demand through welfare state arrangements, secured export-led industrialisation with predominantly domestic control of production and financial resources, and allowed Slovenia to go through its first capitalist decade without a crisis. In fact, "internal" macroeconomic stabilisation went hand in hand with external stabilisation – during the 1990s the country enjoyed a relatively favourable international position. However, the pro-European neo-corporatist coalition and corresponding socio-economic arrangements were unable to generate, on a self-sustained basis, sufficient capital flows for the creation of new and technologically improved production facilities. The restored economic growth did not create jobs. Work intensification and the inflows of foreign capital input in the export-oriented industry were the primary sources of rising productivity. The weakening of labour at the level of production was complemented by the weakening of its power at a state-political level after the turn of the century.

The acceleration of integration into the EU/EMU regime provoked a significant internal displacement of the neo-corporatist situation, with the loss of the exchange rate mechanism, the re-focusing of monetary policy from growth- to inflation-targeting, and its liberation from territorialised democratic pressures. Together with an accelerated liberalisation of capital flows and a transfer of the competition regime at the European level, this EMU-led remodelling of the state hierarchy created new channels of structural pressures on labour markets, wages and welfare state provisions, discussed in Section 5.1. Besides, as argued in Section 5.2, such arrangements were also favourable to an acceleration in the dependent internationalisation of the Slovenian economy, with an increasing reliance on foreign interest-bearing capital. Thus, during the 2000s, jobless and export-led industrialisation was complemented by dependent financialisation: the rising indebtedness of the corporate and banking sectors, the expansion of cyclically sensitive and low-value sectors, and a further undermining of job and income security, were its essential characteristics (see Section 5.3).

High(er) rates of economic and wage growth after 2005 not only masked the accumulation of trade and financial imbalances and, hence, the increasing external vulnerability of the Slovenian economy. They were also indicative of the weakening of the state's capacities to counteract a potentially disruptive economic cycle. As seen in Section 5.3, the overheating of the economy was as much interdependent with the shifting class-power balance and state hierarchy as it was related to the limited ability of the Slovenian state to regulate domestic economic activity after the subordination of its monetary and competition regimes to the ECB and EC, and the acceleration of dependent economic internationalisation.

With the unfolding of the Slovenian Eurozone crisis, the dependent and partial de-territorialised state-building that underpinned the double transition in Slovenia came to the fore. Rapidly collapsing GDP in the initial phase of the crisis was indicative of the weaknesses of the pre-crisis growth regime, mainly dependency on external demand and interest-bearing capital. However, as Section 6.1 has argued, the final form of the crisis was the outcome of the dysfunctional character of the EU/EMU regime, European coordinated fiscal restraint under the NEEG, and the refusal of the ECB to accept the function of lender of last resort (until 2012). In fact, since the very outbreak of the crisis, general developments in Slovenia were to a significant extent dependent on decisions taken by the EC and the ECB, to name just these two unelected actors, for whom the crisis revealed that they had become, long before the end of the 2010s, legislated to be an integral part of domestic policy-making.

Without the capacities to reduce the hardship of the crisis and to accommodate increasing class conflict through an expansionary policy or currency devaluation, the political abilities of Slovenian neo-corporatism to make and sustain social compromises were also limited. Together with pressures from financial markets, strong resistance to labour devaluation and undermined political legitimacy, a half Slovenian-EMU-shaped state design fuelled the political crisis, as well as the reinforcement of non-democratic institutions and practices. Thus, with a new-old instrument of disciplining opposition from below, incorporated in the NEEG reform blueprint, domestic ruling classes relied on bureaucratic Caeserist policy-making to further reshuffle the neo-corporatist state hierarchy at the expense of those same actors and institutions that secured the macroeconomic stability of the country during the 1990s, i.e. the pro-labour ones. Regressive socio-economic restructuring made domestic labour markets and social provisions more precarious, increased foreign-led economic and financial restructuring, and led to the emergence of public debt. At the same time, a remodelling of state hierarchy with a displaced, rule-based and a-democratic macroeconomic policy-making was further accelerated with the constitutionalisation of the Fiscal rule and restrictive referendum legislation.

Despite a significant wave of political, economic and social reforms, all essential mechanisms that underpinned the development of peripheral capitalism in Slovenia remained unchanged. The crisis was pacified but far from resolved. The NEEG made the Slovenian state even more ordoliberal – with a constitutional prohibition of any deficit-spending policy; fragile – with the emergence of public debt; and dependent – on the prospects of the German export-oriented production network and policy decisions taken in Brussels/Frankfurt.

The limits of the argument

This thesis has discussed the development of peripheral capitalism in Slovenia by focusing on the interplay between the antagonistic domestic social forces and their struggles, the EU/EMU-led remodelling of the Slovenian state and the changing international integration of domestic economy. Therefore, some dimensions related to the development of peripheral capitalism in Slovenia could not be discussion in-depth and have been barely mentioned. Four of these aspects are especially important.

First, for analytical reasons, the thesis did not discuss the analysis on the geo-economic and geo-political dimension that has been an integral part of the post-1980s trajectory of the Slovenian economy. A deepening of the dependency of the Slovenian state on the European economic and political structure went hand in hand with entry into NATO. As has been mentioned, the restoration of capitalism in Yugoslavia was followed by the most intense conflict Europe has seen after the Second World War, with the final intervention of NATO forces. An examination of the factors behind a short-term armed conflict in Slovenia would not only deepen the existing analysis on the restoration of capitalism in the region, but also on the international geo-political rivalries, especially between Germany and the US state, that accompanied the disintegration of the Cold War regime in the European region.

Second, in order to study the role of European integration in domestic struggles and the power balance between social forces, the discussion has mostly focused on opposing interests between different social classes and the "corporatist" representatives of the state, labour and capital. The conflicts, antagonisms and struggles for political influence *within* different social classes have been rather sidelined and only a limited account has been provided on the different impacts that state intervention has had on the different groups of actors, economic sectors and regions.

Thus, the third limit of the argument of this thesis is related to rising inequalities within social classes, economic sectors and regions. A study on capitalist diversity at a regional level and on the differences between so-called designates as national vis-à-vis local capitalisms (Gough 2014) would allow further exploration of how the restoration of capitalism in Slovenia and the changed role of the state in industrial and regional development have impacted the uneven socio-economic-cultural restructuring of the "post-Yugoslav" community life.

Finally, in terms of the re-creation of the Slovenian state structures that have underpinned the accumulation of capital since the late 1980s, the thesis focused mainly on political and economic integration. Thus, a limited account has been provided on the struggles and strategies for dominant narratives and ideologies that legitimised the restoration of capitalist property relations and the integration of Slovenia into the Euro (-Atlantic) organisations.

Contributions to current debates

Building on a double transition approach to study the development of capitalism in Slovenia, this thesis makes several contributions to current debates. With respect to their analytical focus, these debates could be divided into three groups, i.e. the debate over the trajectory of the Slovenian economy, over dependent capitalist diversity in the CEECs and, finally, contemporary studies on the uneven development in Europe and the Eurozone crisis.

Debates on the Slovenian trajectory

By studying the emergence and development of capitalist institutions in Slovenia through the prism of neoliberal primitive accumulation and dependent development, this thesis intervenes in three kinds of debates over the Slovenian trajectory. First, the prevailing narrative on Slovenia as an exceptional post-socialist success story has been illuminated through the class-relational-global prism. Throughout the historical analysis it has been shown that, since the late 1980s, the direction and socio-political content of institutional changes in Slovenia were largely similar to those observed in other countries, and have been commonly associated with the neoliberal restructuring of national economies, shaped by a state-led transfer of wealth and productivity gains in favour of capital, especially towards financial capital and export-oriented fractions.

Yet it has been also shown that the neoliberalisation of the Slovenian economy has indeed been rather discretionary and labour-inclusive because labour succeeded in disciplining the neoliberal zeal of the state and business elites. Empowered by the exceptional legacy of the Yugoslav social property regime and relatively strong mobilisation capacities, labour organised mass actions at the very beginning of the restoration of capitalism and state-building (1992, see Section 5.1), and repeated such protests every time domestic leaders used the acceleration of European integration as an instrument to take a further step forward in the transformation of labour markets, wages and welfare provisions into the adjustment variable for external (price) competition, i.e. at the very beginning of the EU negotiations (1998, see Section 5.1), at the entry into the ERM II regime (2005, see Section 5.1), at the launch of NEEG (2010, see Section 6.2), and at the peak of the Eurozone crisis (2012, see Section 5.2).

In fact, largely in contrast to authors talking about a "smooth and peaceful" (Mencinger 2004, 76) transition in Slovenia (see also the edited volume of Mrak, Rojec, and Silva-Jauregui 2004), the thesis has claimed that the emergence and development of capitalism in the region was and still is the result of difficult struggles between the opposing social classes at home. The transition brought new class cleavages and dividing lines in the Slovenian society. This also sheds new light on the role of a favourable Yugoslav heritage. In a similar way to prevailing claims (Mencinger 2004, Lindstrom and Piroska 2007, Bohle and Greskovits 2007), the analysis has shown that Slovenia did indeed inherit several advantages from the pre-1989 period (e.g., relatively autonomous enterprises, experience in macroeconomic governance, liberalisation, integration into the European capitalist markets) and found itself in a more favourable position during the period of the early 1990s (low external debt and a relative autonomy from outside actors). However, one element is missing here.

As Chapter 4 has revealed, probably the most important heritage with far-reaching consequences was the major reshuffling of the class-power balance after the Second World War, shaped by 1) the Yugoslav (including Slovenian) leaders' decision to consider the working class not as the vanguard class, as they used to do, at least formally, but as labour and a factor of production in competitive markets; 2) a powerful and pro-European coalition between export-oriented managers and the Slovenian political and intellectual elites, who considered that the state should play a minimal role in economic restructuring, despite heightened competition on the (emerging) European single market; and, accordingly, 3) by the political and economic dispossession of Yugoslav/Slovenian labour. It was only on the basis of this class-power balance at the expense of labour that the so-called transition to a market economy could take place and be sustained.

In fact, the outbreak of the crisis in the late 2000s led scholars to reconsider the Slovenian pre-crisis development; many ascribe the weakening of neo-corporatist policy-making and the building up of foreign indebtedness to the change in the government's position in 2004 (Mencinger 2009, Bohle and Greskovits 2012, Bembič 2013, Stanojević 2014, Guardiancich 2016, Lindstrom 2015). This thesis has suggested that the takeover of power by a right-wing coalition played a minor role in the shift in the Slovenian pre-crisis trajectory. In terms of policy change and the growth "model", 2002–2003 should be taken as years that signalled a departure from the 1990s trajectory. The acceleration of the adjustment of Slovenian regulations to the EU/EMU regime since the late 1990s, especially in terms of the liberation of capital flows and the shifting status of the Bank of Slovenia, were decisive for the accumulation of pre-crisis imbalances and the weakening of consensual corporatist decision-making capacities. That said, 2004 was crucial inasmuch as it was a year when the Slovenian EMU-led half state-building reached its culminating change (in a pre-crisis period) with the loss of monetary and competition sovereignty. This created new structural pressures on the labour market and on wages, and made the country structurally dependent on the macroeconomic decisions taken by the EC and the ECB.

Finally, this thesis also contributes to the prevailing accounts on the Slovenian trajectory after the late 2000s. In contrast to Guardiancich (2016) and Bohle and Greskovits (2012), who explain the economic downturn in Slovenia in terms of pre-crisis imbalances, Section 6.1 has argued that policy choices taken *after* the unfolding of the Eurozone crisis and the dysfunctional EMU state-building were the main factor for the protracted nature of the crisis. The reinforcement of top-down coordination of macroeconomic policies under the NEEG, austerity-based measures, and the status of the ECB, were particularly important for the escalation of the banking crisis and the sovereign debt crisis.

The spread of authoritarian neoliberalism in Slovenia during the recent crisis has gained significant academic attention (Feldmann 2014, Lindstrom 2015, Bugaric and Kuhelj 2015, Stanojević, Kanjuo Mrčela, and Breznik 2016). Most scholars, however, tend to downplay the interdependent relation between the intensification of authoritarian policy-making and European state-building, which prevented the use of macroeconomic instruments that could ease the hardship of the crisis (fiscal conservatism, state aid, exchange rate mechanism), and which exposed Slovenia to pressures from financial markets (until 2013). At the same time, these same state structures were also helpful in overcoming popular pressures and in facing militant trade unions – bureaucratic Caesarist policy-making in Slovenia was therefore mostly indicative of the weakening-strengthening of states under the EU/EMU regime that, at least in Slovenia, produced powerful class effects in favour of capital, as well as in favour of the executive bodies and institutions linked to finance and international trade.

Dependent capitalist diversity in the CEECs

With respect to the current debates over the development of peripheral capitalism in the post-socialist region, this thesis makes three major points. First, in the literature, the period of the early 1990s is commonly referred to in terms of the "transformational" or "Washington Consensus" depression (Myant and Drahokoupil 2012, Podkaminer 2013). The analysis on developments in Slovenia has, however, suggested that none of these terms can fully grasp the main issue at stake behind the crisis that accompanied the systemic change in CEECs. The early 1990s crisis was primarily related to a major reorganisation of the post-war class-power balance, and was indicative of the weakening of the structural and "wage" power of Slovenian labour. The collapse of domestic demand, which represented the main macroeconomic aspect of this change, also paved the way for the deepening of dependent integration on the "European" markets. Thus, from the point of view of the development of peripheral capitalism in the region, after a long and painful struggle, the early 1990s represented a decisive turning point for all those class forces that sustained the realisation of the global capitalism project at European level.

Second, the thesis has confirmed the arguments of the scholars that have pointed out that the European eastward enlargement strategy, hostile to state-led industrialisation, played an important role in increasing the dependency of the post-socialist economies on the European markets (Ivanova 2007, Bohle 2009, Drahokoupil 2009, Holman 2004). Whereas European trade arrangements and the promotion of foreign (mostly) private capital through (rapid) liberalisation have been already defined as mechanisms of dependency, the EMU regulations, linked to the launch of the common currency, should be taken into account as well. The liberalisation of financial markets created structural conditions that enabled the (dependent) financialisation of the Slovenian economy, but did not determine its concrete form and extent. The latter was related to domestic power struggles, socio-political arrangements, inherited patterns of development etc., but also to the peculiar remodelling of the Slovenian state apparatus under the EU/EMU regime. This observation leads to the final point.

Finally, this thesis has also provided additional insights into the mechanism and modalities of political dependency. By now, the relationship between external dependency and the political structures and relations in the CEECs have been mostly explored in terms of the transnational constitution of domestic, comprador, social groups or classes that have promoted, and succeeded in translating, the interests of foreign investors (FDI) in public policy (Vliegenthart and Overbeek 2007, Drahokoupil 2009, Vliegenthart 2010, Bembič 2013). The present analysis, however, has focused on the role of the peculiar state-building in line with the EU/EMU regime, and considered international flows of trade and money capital as important channels of dependency as international flows of productive capital (FDI) are. By so doing, the thesis has shown that European regulations and a partial de-territorialisation of macroeconomic decision-making have acted as vehicles for peripherisation. Within such state structures national ownership is not necessarily a factor of smaller dependency and a source of stability. Myant and Drahokoupil (2012, 4) and Epstein (2013, 529) arguably insist that in Slovenia domestic control of the banks did not contribute to greater macroeconomic prudence. However, they tend to underestimate the interaction between the increase in the inflows of foreign loans during the 2000s and the liberalisation of the financial markets, as well as the loss of monetary sovereignty, linked to the integration of the country into the EMU.

In fact, this thesis has shown that the central banking authority should be considered to be one of the key actors in the development of peripheral capitalism in the CEECs. As has been explained throughout the analysis, the establishment of the formally independent central banking authority, the changing role and status of the BS in domestic political economy, as well as the capacities of domestic actors to influence its policy-making, played a decisive role in terms of the extent of dependent integration and the concrete form of development.

Uneven development in Europe and the Eurozone crisis

Although it has mainly been through the perspective of a single, Slovenian, economy, this thesis has also contributed to the current debates on uneven development in Europe and the Eurozone crisis. The first – and probably the most important – contribution is that the thesis has constructed an in-depth account on the historical trajectory of the first Eurozone post-socialist Member State since the late 1980s. For now, most of the analysis on the Eurozone crisis tended to focus on the decade after the launch of the monetary union and the factors behind the asymmetrical pre- and post-2007–2008 developments in the Eurozone core countries, especially Germany, and the Southern periphery (for an in-depth review of debates see Nölke 2015).

Second, largely in line with the conclusions of Nölke (2015, 155-56), the study on Slovenia suggests that any analysis that focuses merely on one set of factors (the presence or absence of coordinated wage bargaining, the launch of the euro and the elimination of exchange rate risks, financialisation and growing household debt on the periphery, different growth regimes, changing scales of regulations, to name just those that are most discussed) tend to provide only a partial account on diverging pre- and post-2007/08 trajectories of European economies. Despite relatively coordinated wage bargaining, close to the German institutional setup, unit labour costs and price competitiveness deteriorated in the pre-crisis years in Slovenia; the substantial increase in private indebtedness was not concentrated in households but in the corporate sector, and it started to build up long before the adoption of the euro in 2007; finally, despite a comparatively lower dependency on FDI inflows, the crisis hit Slovenia much more severely than other CEECs (see Sections 5.3 and 6.3).

At least with respect to the Slovenian Eurozone crisis, the latter could only be grasped by taking into account the interaction between class-power struggles, state-building and structural hierarchy, changing international insertion and corresponding accumulation regimes, as well as their connection to international (European) power relations. As such, the crisis in Slovenia had systemic roots and should be seen in relation to unsustainable (neoliberal) political solutions provided to counter the problems of the Slovenian economy, revealed by the outbreak of the 1980s debt crisis.

In fact, this study can be seen as complementary to the one provided by Stockhammer, Durand, and List (2016), claiming that class struggles, particular to each country, have played a role in the building of macroeconomic imbalances and diverging trajectories. Their analysis empirically compares the developments of European core countries and the Southern and Eastern peripheries during the 2000s and approaches changing working class configurations through macro data indicators. With its historical account on the developments in Slovenia, this thesis provides an answer to their finding that, at a general level, the situation of the working class deteriorated in the CEECs prior to the crisis, despite a relatively significant industrial upgrading and real wage rises (so-called hegemony by catching up) (Stockhammer, Durand, and List 2016, 16). At least in Slovenia, such an outcome was related to the weakening of trade unions in domestic corporatist arrangements as a consequence of integration in the EU and entry in the ERMII regime, as well as to the accelerated internationalisation of the economy (see Chapter 5).

Finally, the Slovenian case is also insightful in terms of policy implications, especially with respect to the factors of macroeconomic (in)stability and the limits of catching-up strategy under neoliberal European design: a relative maintenance of welfare state provisions, national controls of banks, limited liberalisation and capital controls, as well as growth-targeting monetary policy, secured domestic sources of demand and finances and prevented Slovenia from accumulating major macroeconomic imbalances and, thus, from encountering another crisis at the end of the 1990s (see Section 5.3). Yet, as seen in Section 5.2, despite its Keynesian-like traits, this trajectory was actually internationally "embedded" in rather anti-Keynesian European convergence criteria and did not provide a sustainable solution to the inherited technological problems of the Slovenian economy. To reverse these trends, a much more profound change in the state-labour-capital nexus would be needed.

The case study on the Slovenian double transition suggests that such a change should bring the monetary and competition regimes back under the control of democratic accountability and should allow for a welfare state expansion, a redistributive tax system and strategic industrial policy. The latter should focus on domestic, instead of foreign markets, and use labour markets, wages and households as sources of domestic demand, co-producers of value/profits, and participants in democratic policy-making, and not as variables of the authoritarian improving of price competitiveness and/or expanding financial assets. As a comparative view on the two crises that shaped the double transition in Slovenia (see in particular in Sections 5.1 and 6.1, 6.2) suggests, the economic hardships would have been even deeper, while authoritarian neoliberalisation and the external dependency of the Slovenian economy would have been much more pronounced had the popular protests not succeeded, *again* and *again*, in reducing the national governments' zeal to comply with the WCA policy directives, promoted either by the IMF or the EU.

Directions for further research

Those contributions to current debates on the Slovenian trajectory, dependent capitalist diversity in the CEECs, uneven development in Europe, and the Eurozone crisis, suggest that the theoretical perspectives and conceptual toolkit proposed by the thesis has a certain explanatory power. Thus, it seems useful to explore and refine further the conceptual and paradigmatic horizon outlined in this thesis. Regarding further research, it is proposed to return to the origins of this thesis in order to move forwards with the elaboration of an alternative theory on the restoration of capitalism in the CEECs.

The examination of the explanatory strength of the proposed framework on the Slovenian case indicates that further refinement of a double post-socialist transition approach should be along the following three lines. First, the above-mentioned limits of the present argument should be incorporated into the analysis on theoretical grounds by a more in-depth study of the debates already discussed, and establishing new bridges with contemporary authors. The interplay between the establishment of the capitalist private property regime, the use of belligerent instruments of state power, and the expansion of various sorts of social inequalities, has been one of the key focuses of Marx's account of the primitive accumulation process. At the same time, the interaction between dependency, uneven development, and complex political internal-external interplay, was one of the key questions explored by dependency school authors.

One of the potential bridges to more contemporary debates is seen in the incorporation of insights from neo-Gramscian critical scholarship, especially those streams of thought that pay attention to class relations and the struggles for hegemony within national states, but remain attentive to their interplay with international power relations and structures (Drahokoupil 2009). A refinement of the understanding of relationships between agency and structures, the composition of ruling blocs, and their influence on state strategic selectivity would, however, also demand a further deepening of the understanding of the relationship between macroeconomic outcomes and the regulation of capitalist social relations in historically-specific institutional arrangements. Therefore, it is suggested to follow the advice of Becker and Jäger (2012, 170) to consider "modified regulation theory as a solid basis for the analysis of crisis" – they call this "modified" since it should combine concerns over the hierarchy of structural forms, defining a specific mode of regulation and related accumulation regimes, with a more sophisticated understanding of the uneven (and unequal) financialisation of national economies and the changing territoriality of national regimes of accumulations and modes of regulations (see also Becker et al. 2010).

The double transition approach, however, seeks to be not merely a theory of capitalist diversity in the post-socialist region and of historical trajectories of post-socialist economies, but also a theory of systemic diversity. Therefore, any further deepening of the outlined theoretical framework should critically engage with its central assumption and explore further, theoretically and analytically, the character of the economies of so-called real socialism. Insights from the historical analysis on Yugoslavia suggest that such a research endeavour should go beyond a mere understanding of formal socio-economic arrangements to explore the socio-political impacts of the latter, their concrete functioning, and their role in the organisation and regulation of the system of social dominance, particular to socialist economies. Analyses on the functioning of money, factory regimes and unemployment in socialist economies, provided by Samary (2004, 2017), Burawoy et al. (1993) and Woodward (1995), seem to provide particularly fruitful entry points for the further refinement of the understanding of the systems from which peripheral capitalism in the CEECs emerged.

By studying these three perspectives, further research would continue with the ambition that this thesis has proposed to itself. For if "[i]t is time for New Directions" (Coates, 2015, 24), the re-examination of the puzzling developments in Slovenia through the prism of the double transition approach suggests that by trying to "fus[e] the best of the new institutionalism with the best of a reviving Marxism" (Coates, 2015, 24) one can build new avenues for a critical reconsideration of the present and its past, as well as for the exploration of the alternatives for future development paths.

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ABSTRACTS

From Socialism to Peripheral Capitalism: The Political Economy of the Double Transition in Slovenia

This thesis studies the emergence and the development of peripheral capitalism Slovenia. To make an account on the political economy of Slovenia since the late 1980s up to the mid-2010s, this thesis builds on a novel, so-called double post-socialist transition approach that consists of five analytical elements: (1) a presupposition that the socialist system in Yugoslavia was a form of non-capitalist system; (2) a Marxist-inspired concept of transition; (3) an analytical distinction between "internal" and "external" levels in the development of post-socialist capitalism; (4) two concepts: neoliberal primitive accumulation and dependent integration; (5) the reconstruction of the analytical space and time.

The thesis is divided into six chapters. The studies on the development of post-socialist economies inspired by the Varieties of Capitalism approach are discussed first in order to find research avenues for an alternative theoretical framework. The second chapter elaborates the concept of neoliberal primitive accumulation by examining the Marxist-inspired analysis on past and present practices of primitive accumulation. With respect to the re-integration of the post-socialist economies in the world market, chapter three elaborates the concept of dependent integration, combining insights from the dependency school authors and the critical scholarship on the European integration project. Chapter four contextualises the emergence of capitalist institutions in Slovenia within the demise of Yugoslavia through the neoliberal primitive accumulation (1979–1989). The main outcome of the neoliberal primitive accumulation in Yugoslavia was to "inject" on the world market a new territory of capitalist private property regime regulated by the newly established Slovenian state. Chapter five explores how further development of capitalism in Slovenia was interconnected with the deepening of political and economic dependency of the country on the European political and economic structures (1990–2007). The final chapter discusses how and to what extent the unfolding of the Slovenian Eurozone crisis reinforced the peripherisation of the Slovenian economy (2008–2015).

Key words: post-socialist transition, core-periphery, peripheral capitalism, Slovenia, European Union, Yugoslavia.

Du socialisme au capitalisme périphérique : L'économie politique de la double transition en Slovénie

Cette thèse porte sur les mécanismes et modalités du développement du capitalisme périphérique en Slovénie. Pour étudier l'économie politique slovène de la fin des années quatre-vingt-dix jusqu'au milieu des années deux mille dix, une nouvelle approche, dite de la double transition post-socialiste, est élaborée. Celle-ci se caractérise par les cinq éléments suivants : a) la présupposition que le système socialiste de la Yougoslavie était un système non-capitaliste ; b) le concept marxiste de transition ; c) la distinction analytique entre les niveaux « externe » et « interne » du développement du capitalisme post-socialiste ; d) les concepts d'accumulation primitive néolibérale et d'intégration dépendante ; e) la reconstruction spatio-temporelle de l'analyse du développement des économies post-socialistes.

La thèse est composée de six chapitres, les trois premiers étant de nature théorique tandis que les trois derniers portent sur l'analyse de la trajectoire historique de l'économie slovène. Sont étudiées d'abord les études sur le développement des pays post-socialistes s'inspirant de l'approche de « variétés de capitalisme ». Dans un second temps, le concept d'accumulation primitive néolibérale est élaboré à partir des études marxistes sur les pratiques anciennes et contemporaines de l'accumulation primitive. Dans le troisième chapitre, les analyses basées sur la « théorie de la dépendance » et les études critiques du projet européen sont examinées afin de conceptualiser l'intégration dépendante. Le chapitre quatre contextualise la restauration des institutions du système capitaliste en Slovénie au sein de l'effondrement de la Yougoslavie par l'accumulation primitive néolibérale (1979–1989). Ce processus a introduit sur le marché mondial un nouveau territoire du régime de propriété privé capitaliste, régulé par l'Etat Slovène formellement indépendant. Le chapitre cinq étudie comment le développement du capitalisme slovène post-Yougoslave a résulté de l'intensification de la dépendance économique et politique de l'économie slovène sur les structures européennes, engagée pendant l'intégration du pays dans l'Union Européenne and l'Union Européenne et Monétaire (1990–2007). Le dernier chapitre analyse comment, et dans quelle mesure, l'enclenchement de la crise de la zone euro slovène a renforcé la périphérisation de l'économie slovène (2008–2015).

Mots clés : transition post-socialiste, centre-périphérie, Slovénie, Union Européenne, Yougoslavie

Od socializma v periferni kapitalizem: Politična ekonomija dvojne tranzicije v Sloveniji

V doktorski disertaciji proučujemo razvoj slovenskega gospodarstva od konca osemdesetih let preteklega stoletja do sredine tega desetletja in sicer z vidika mehanizmov in procesov, ki so vodili v razvoj perifernega kapitalizma v Sloveniji. Opiramo se na alternativni pristop t.i. dvojne tranzicije, ki temelji na petih elementih: a) analitični predpostavki, da socialistični sistem v času povojne Jugoslavije ni bil kapitalističen; b) marksističnem razumevanju tranzicije kot procesa sistemske spremembe v prid vpeljave lastninskih struktur in razmerij, ki so značilni za kapitalizem; 3) ločevanje dveh ravni razvoja nacionalnih gospodarstev, ki sta v zgodovinskem dogajanju drugače medsebojno prepleteni, notranjo in zunanjo raven; 4) dveh temeljnih konceptih, neoliberalni prvotni akumulaciji in odvisnem razvoju in 5) rekontekstualizaciji časovno-prostorske dimenzije razvoja post-socialističnega gospodarstva.

Doktorska disertacije je razdeljena v šest poglavij. Najprej proučujemo debato o teoretičnih in analitičnih šibkostih teorije različic kapitalizma za razumevanje razvoja postsocialističnih gospodarstev. V drugem poglavju s pomočjo marksističnih razprav o preteklih in sodobnih procesih, ki zadevajo prvotno akumulacijo, oblikujemo koncept neoliberalne prvotne akumulacije. Nato s pomočjo razprav o odvisnostni teoriji in kritičnih študijah o projektu evropskih integracij oblikujemo koncept odvisnega razvoja, ki se nanaša na proces poglabljanja politične in ekonomske odvisnostni postsocialističnih držav v evropskem političnoekonomskem prostoru. Študija o razvoju slovenskega gospodarstva iz socializma v periferni kapitalizem je razdeljena na tri obdobja. Poglavje o razpadu Jugoslavije in neoliberalni primitivni akumulaciji (1979–1989) umešča restavracijo kapitalizma v Sloveniji znotraj dolžniške krize v osemdesetih letih preteklega stoletja. V petem poglavju raziskujemo, kako se je procesom priključevanja slovenske države v Evropsko unijo in evrsko območje krepila zunanja odvisnost države. V zadnjem poglavju pokažemo, kako so se v času slovenske krize evrskega območja vsi temeljni trendi in mehanizmi razvoja perifernega kapitalizma v Sloveniji le še dodatno krepili.

Ključne besede: post-socialistična tranzicija, center-periferija, periferni kapitalizem, Slovenija, Evropska Unija, Jugoslavija.

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