

Historical Studies of Socialist System

ISSN 2432-8774

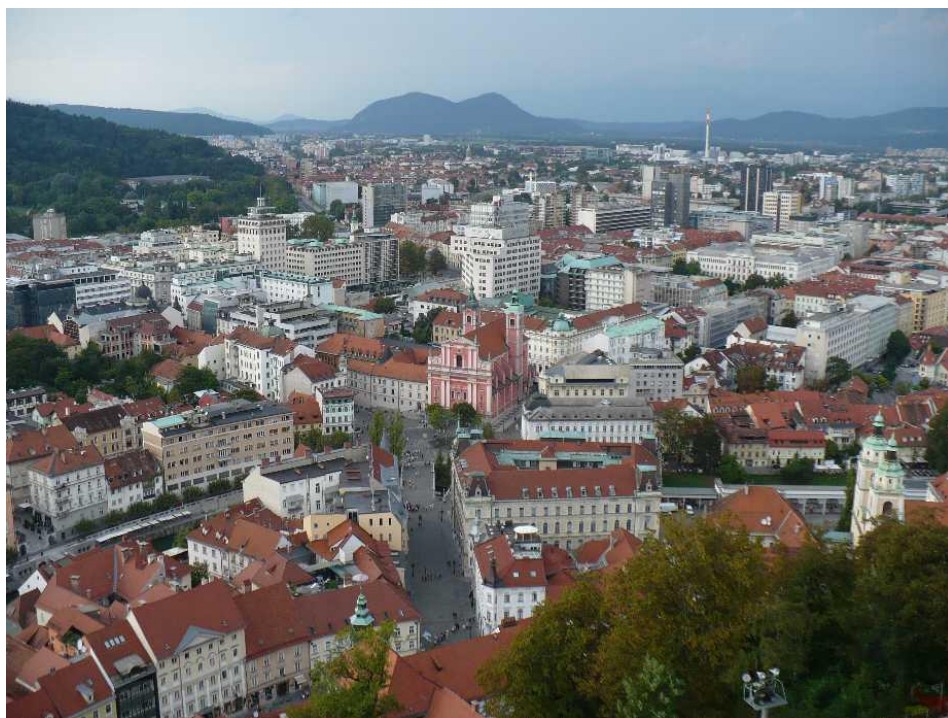
社会主義 体制史研究

No. 31 (December 2022)

Slovenia and the European Union

Yoji Koyama

Professor Emeritus at Niigata University (Japan)



社会主義体制史研究会

The Japan Collegium for Historical Studies of Socialist System

『社会主義体制史研究』(Historical Studies of Socialist System)

ISSN 2432-8774

Website: <https://journal-hsss.com>

publisher: The Japan Collegium for Historical Studies of Socialist System
社会主義体制史研究会

size: A4

mail to journal.hsss99.com (99=@gmail)

不定期刊(原稿があり次第発行)、文字数制限なし、無料のオンライン・ジャーナルです。

旧社会主義諸国(共産圏)の歴史(「革命」前・体制転換後を含む)と、社会主義や共産主義の思想・理論を対象に批判的検証を志しています。投稿歓迎。

cover photo The Center of Ljubljana viewed from Grad (the Castle) © Yoji Koyama



The Main Office of Kolektor and the River Idrijca © Yoji Koyama



The Triple Bridge in the Center of Ljubljana © Yoji Koyama

Slovenia and the European Union

Yoji Koyama¹

Introduction

This short paper was originally written as an item of *The Encyclopedia the European Union* which is to be published by Maruzen Shuppan (Tokyo, Japan) in May 2024. All items in this Encyclopedia are written totally in Japanese. However, I translated this item which is assigned to me into English in order for foreign people to understand my study. This English version is enlarged and it is two times the Japanese version in terms of the volume.

The Best Performer of Former Yugoslavia

Slovenia has been often classified into the Balkans, but it is a country of Central Europe in terms of culture. Majority of the people believe Catholic. As Slovenia was under the rule of the Habsburg Empire for centuries for more than 5 centuries, still now Austria's strong influence can be perceived. This country joined the European Union in May 2004 together with other countries of Central and Eastern Europe. Among them Slovenia is the richest along with the Czech Republic. Former Yugoslavia introduced a market economy partly in the framework of socialism by the economic reform in 1965 thereby its economy was integrated into the world economy. As Slovenia in particular cooperated actively with Western countries and was able to absorb Western technology to a certain extent, the technological level of enterprises in this county has been rather high. There are some enterprises (for example, Kolektor) which grew into multinational enterprises in market niches. From the standpoint of the World System View, which classifies countries into core, semi core and periphery, this country is placed as semi core or core². This country can be called the best performer of the former Yugoslavia. When the Socialist Federal Republic of Yugoslavia was broken up in 1991 Slovenia became independent. Unlike other Republics, Slovenia has not experienced horrible ethnic conflicts. Rather this newly born country suffered from the loss of the market of the former Yugoslavia. In order to compensate the loss Slovenian companies, which had already close relations with the Western markets, were obliged to make efforts to enter the Western markets further.

Experiences of Slovenia

This country has always made efforts to secure its independence (especially economic). The

¹ Professoer Emeritus at Niigata University (Japan)

² Norkus (2012) classifies mainly Slovenia into a semi core (p. 114), but in another part of the book (p. 118) he classifies this country into a full-blown core CME country.

economic independence does not mean national seclusion. As small countries like Slovenia have small domestic markets they cannot accomplish their economic development unless they actively trade with other countries. Although the country has had an open economic system, it has endeavored to keep the core part of its economy, i.e. banks and R&D divisions of enterprises as many as possible in hands of domestic capitals. Until the onset of the 2008-2009 global financial crisis the government has managed to keep favorable balance of international payments and current account balance in particular or to keep the deficit smaller at least. Consequently, its amounts of the external deficit and the public debt were smaller. Such a good economic performance was supported by the country's higher international competitiveness.

The strength of this country consists in the high level of craftsmanship. This country does not have a full set of industries. Seeking market a niche in the world market, Slovenian companies have devoted themselves to production of appropriate products and intermediate products such as components of machines. In addition, leaders of this country understood the importance of advanced industries and service industries already in the 1970s and put emphasis on the development of such industries. Experiences of Slovenia until the mid-2000s demonstrated that even in a small economy (with population of about 2 million) people could enjoy richer lives. While many people have been emigrating from countries of Central and Eastern Europe (especially the Baltic States and the Balkans) to advanced EU member states for higher wages and living standard after the EU accession resulting in a remarkable decrease in population, in Slovenia the number of immigrants slightly exceeds that of emigrants resulting an increase in population albeit at a moderate pace.

The uniqueness that distinguishes it from other post-communist countries consists in the following points: Slovenian people have cherished their local communities where they have improved their craftsmanship from generation to generation. After the system change the government implemented privatization of enterprises with priority given to insiders. Because of its higher international competitiveness, Slovenia did not rely on inward FDI so much and was rather enthusiastic about outward FDI until the onset of the 2008-2009 global financial crisis. This country was not always faithful to advices by international financial institutions such as the IMF and the World Bank. While most of post-communist countries have experienced severe transformational depression in the transition to a market economy, Slovenia had milder transformational depression and the state budget and the balance of current account were not in serious situations. Therefore, this country was less susceptible to pressure from the IMF, and partly as a result, the country was able to pursue a gradual approach to the transition.

This country is called 'neo-corporatist' and 'a coordinated market economy'. It is only Slovenia that is called in that way among post-communist new EU member states. Having inherited the tradition of workers' self-management in the former Yugoslavia, the rate of unionization was relatively high and trade unions' mobilization capacity was large. In early 1992 it became urgent necessity to overcome inflation of nearly 200% annually. At that time under the center-left government led by Prime Minister Janez Drnovšek, the leader of the Liberal Democratic Party (a successor party of the former League of

Communists of Slovenia), dialogues among the government, trade unions and employers began. They pursued a policy of negotiated wage constraint, with the first pact in 1994 not only setting the parameters for income policy for that year, but also establishing the Economic Social Council (ESC), which institutionalized the process of social dialogue. The coverage rate of employer organization approached 100%, due to compulsory membership in the Chamber of Commerce. Employers accepted the method of determining wage levels through centralized bargaining as a second (or third) best option. This institutionalization of corporate mechanisms by the formation of the ESC helped the center-left remain in power in Slovenia for 12 years (except for a half year from June 2000 to November 2000 when a coalition government by different parties was formed). This mechanism enabled the parties concerned to reach agreement on a mild increase in wages, thus decreasing the inflation rate. Later, thanks to this mechanism, Slovenia was able to satisfy the Maastricht criteria and join the EMU (Economic Monetary Union) and adopt the Euro on January 1, 2007 earlier than any other post-communist EU member states³. This country served successfully as the EU Presidency in the first half of 2008⁴. Until this moment the country's success story continued.

Economic Crisis

The economy was struck by the Lehman shock in September 2008, and the recession continued until 2014. In October elections in 2004 the center-left coalition government was defeated to Democratic Party, the opposition, and a center-right coalition government was formed with Prime Minister Janez Janša. This government launched radical neoliberal reforms. The government attempted to dismantle the neo-corporatist coordination network deliberately. The Chamber of Commerce, which represented employers, was based on mandatory membership in the 1990s. Its mandatory membership was changed to voluntary membership by the revision of the law. The government got employers' consent by suggesting the sale of big companies' shares which the government possessed. With this change, the ESC practically ceased functioning. Under the government a bubble economy has emerged.

In June 2004 Slovenia joined the ERM II (Exchange Rate Mechanism II) as a precondition for membership to the EMU (i.e., introduction of the Euro). Thanks to this, the Slovenian national currency Tolar came to show very narrow fluctuations to the Euro. The sovereign risk premium decreased and the nominal interest rate for the Tolar converged on the Eurozone interest rate, in other words, it decreased. Although the country was not officially admitted to the Eurozone yet, in the financial area barriers between the Eurozone economy and the Slovenian economy practically disappeared. The reason why the Slovenian economy fell into a serious crisis is that private banks increased their borrowings in the international financial market very quickly within a few years in the mid-2000s. At that time the central bank was not cautious about domestic banks' practice of borrowing a huge amount of funds abroad and providing companies with loans and did not (and could not) regulate flows of funds across

³ For the euro adoption by Slovenia, see Mencinger (2015).

⁴ Slovenia served as the EU Presidency also in the first half of 2021.

borders. When enterprises faced the depression, private banks came to have a huge amount of non-performing loans. In the case of other post-communist EU member states the share of foreign-owned banks in total banking assets was overwhelmingly large, and parent banks in home countries supported their subsidiaries in host countries in the face of the economic crisis. In contrast, in Slovenia the share of banks of domestic capitals was large (accounting for about 60% of the total asset of the banking sector), and therefore the government was obliged to inject public funds into these banks quite often in order to protect the banking system. In October 2012 the law on financial stabilization to establish the so-called bad bank (BAMC) was enacted. On December 18, 2013, after receiving approval from the European Commission, the transfer of non-performing claims to the BAMC was carried out, and the capital injection by the government to three banks started. As a result, the deficit of the general government budget amounted to 14.7% of GDP, albeit temporarily (the budget deficit in the first quarter of 2014 was 5.5%).

Table 1 Changes in Public Debt and External Debt

	2004	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Public Debt	27.2	22.0	35.0	38.6	46.9	53.7	70.8	80.9	82.6	78.5	76.4	70.3	65.6	79.8	74.7
External Debt	56.7	105.3	113.3	114.4	111.2	119.1	116.0	124.2	126.1	110.9	101.1	91.9	91.5	101.9	87.0
Note: Public debt is based on the definition of the EU. The external debt is in gross amount. Both are expressed as a percentage of GDP.															
Source: wiiw's Current Analyses and Forecasts, various issues.															

As Slovenia did not receive any assistance from the Troika (the European Commission, the European Central Bank and the IMF) the country narrowly escaped from falling into a humiliating position like Greece, but a heavy burden came on people's shoulder (see Table 1). In addition, in 2013 and 2014 the European Commission applied Macro Economic Imbalance Procedure to Slovenia. Thus Slovenia was obliged to take austerity measures for a certain period of time.

Increasing People's Dissatisfaction and Political Crisis

Politically, the country has a bicameral system. There are the National Council (the fixed membership is 40) corresponding an upper house and the National Assembly corresponding to a lower house. Politically more significant is the National Assembly with the fixed membership of 90. The national elections have a single-seat constituency system in combination with proportional representation. It has a 4% threshold. Every time there has been no single party majority, and therefore coalition negotiations took a long time.

When the bubble burst after the Lehman shock causing recession, voters' distrust in existing political parties intensified. Coalition negotiations after the elections in December 2011 were not going well, and only in the end of January next year the center-right coalition government led by Janez Janša, the leader of the Democratic Party, started. In December 2012 amid serious economic crisis, however, a

bribery scandal of Prime Minister Jansa surfaced. In the end of February 2013 the National Assembly passed non-confidence in the government of Jansa. In March started a center-left coalition government led by Prime Minister Alenka Bratušek, the leader of 'Positive Slovenia', which was just formed in October 2011. This government was given by the EU and the IMF tough recommendations, namely, banking sector restructuring, fiscal consolidation, pension system reform, labor market reform, promotion of privatization including introduction of foreign capitals, etc. Responding these recommendations, in June 2013 the government announced the privatization program which intended to attract foreign capitals by privatization of the telecommunication company, ports, roads, the international airport of Ljubljana, etc.

People's opposition against the privatization of infrastructure was strong. As discontent intensified even within the ruling party 'Positive Slovenia' Prime Minister Bratušek was dismissed from the position of the party leader in spring 2014⁵. Consequently, early elections were held in July in the same year. Also this time, a new political party, which was formed immediately before the elections, got support from many voters in a moment. The Miro Ceral Party (later renamed Contemporary Central Party) which Miro Ceral, Professor at the Law Faculty of the University of Ljubljana, formed on June 2 won 34.6% of total votes with the largest seats (36). This party formed a coalition government with the Social Democratic Party and the Pensioners' Party, but it revealed a lack of political experiences and made several mistakes: in October 2015 when numerous refugees rushed to the border, under pressure from center-right political groups the government set barbed wire fences along the border, but it could not get new supporters from center-right groups. Instead, however, such measures kept away from progressive voters. Since then the approval rate of the government was floundering around a third. Criticism from a coalition partner forced Ceral to resign from the position of the Prime Minister in May 2018. As a result of elections held in early June the Democratic Party (center-right) led by Janša, an anti-refugees leader, became the largest party with 25 seats. Coalition negotiations was made among political parties with Mr. Janša as a candidate for next Prime Minister, but the negotiations ended stalemate since his authoritarian political style like Hungarian Prime Minister Viktor Orbán was hated. Then negotiations on a new coalition government without the Democratic Party was made with the second party Marjan Šarec List (LMS) as a center, and finally in September Mr. Šarec was elected the Prime Minister. As he became a member of the Parliament at the election just 4 years ago after having served as Mayor of a local city, he lacked sufficient political experiences. As Prime Minister of a minority government he had difficulties in managing politics. After opposition from a non-cabinet ally and then criticism from a coalition partner, he resigned from his position as Prime Minister suddenly in January 2020. Mr. Janša became Prime Minister in March 2020.

People's Growing Interest in Environmental Issues

⁵ In May 2014 she formed a new Party, Party of Alenka Bratušek (Stranka Alenke Bratušek; SAB in short).

Elections of the National Assembly were held on April 24, 2022. Reflecting people's growing interest in environmental issues, a party called Free Movement (renamed from Green Actions Party in January 2022) became a focus of the elections. Its leader Dr. Robert Golob is originally a specialist on electric engineering. He established a private company of distribution of electricity in 2002. In a little more than a decade, the company turned from a local electricity supplier to a large company and now it supplies also natural gas. As a person enthusiastic about environmental issues he was elected the leader of Free Movement in January 2022. In the elections Free Movement won 34.5% of total votes with 41 seats. The Democratic Party won 23.4% with 27 seats. The New Slovenia Party won 6.9% with 8 seats. The Social Democratic Party won 6.6% with 7 seats. The Leftist Party won 4.5% with 5 seats. SAB, LMS, People's Party and Pensioners' Party did not satisfy 4% threshold and got no seat. Out of these parties SAB and LMS decided to join Free Movement. New coalition government led by Prime Minister Golob, leader of Free Movement, with the Social Democratic Party and the Leftist Party started on June 1, 2022. It is noteworthy whether this country will regain political stability under this coalition government.

References

English Literature

Bank of Slovenia, *Annual Report*, various issues.

Bohle, Dorothee and Bela Greshkovich (2012), *Capitalist Diversity in Europe's Periphery*, Ithaca and London: Cornell University Press.

Gow, James and Cathie Carmichael (2000), *Slovenia and the Slovenes: A Small State and the New Europe*, Aldershot (UK): Dartmouth Publishing Company, Ltd.

Jaklič, Marko, Hugo Zagoršek and Aljaz Hribernik (2009), Slovenian Evolutionary Business Dynamics, in *New Modes of Globalizing Experimentalist Forms of Economic Organization and Enabling Welfare Institutions: Lessons from the Nordic Countries and Slovenia*, ed. P. H. Kristensen and K. Lilja, Helsinki: Helsinki School of Economics.

Koyama, Yoji (2015), *The EU's Eastward Enlargement: Central and Eastern Europe's Strategies for Development*, Singapore: World Scientific.

Koyama, Yoji (2016), *The Eurozone Enlargement: Prospect of New EU Member States for Euro Adoption*, NY: Nova Science Publishers.

Koyama, Yoji (2018), Development of a Slovenian Company Kolektor and Its Transformation into a Multinational Enterprises, *Journal of Human Resource Management*, Faculty of Management, Comenius University in Bratislava, Issue No. 2/2018), 16p.

Mencinger, Jože (2013), The Rise and Decline of a Country: Experience of Slovenia, in Prunk and Deželan (eds.), *Dvajest let slovenske države*, Ljubljana: Fakultet za družbene vede.

Mencinger, Jože (2016) From Dinar to Tolar and from Tolar to Euro: The Slovenian Experience, in Koyama (ed.) (2016).

Norkus, Zenonas (2012), *On Baltic Slovenia and Adriatic Lithuania*, Vilnius: Apostrofia.

Stanojević, Miroslav and Matej Klarič (2013), The impact of socio-economic shocks on social dialogue in Slovenia, *Transfer: European Review of Labour and Research*, 19(2): pp. 217-226.

Svetličič, Marjan (1997), Small Country in a Globalized World: Their Honey Moon or Twilight?, paper prepared for ECPR Workshop on Small States in the Transforming European System.

Japanese Literature

Japanese Embassy in Slovenia, *Slovenia Monthly* (an electronic journal).

Koyama, Yoji (2013), Slovenia's Success Story and Its Pitfall, *Russian and East European Studies* (the Japanese Association for Russian and East European Studies), No. 42, pp. 88-102.

Koyama, Yoji (2015), Slovenia's Economic Crisis and Political Crisis, *Russian and Eurasian Economy and Society*, No. 989, pp. 38-46.

Koyama, Yoji (2017), *The European Union's Crisis and Its Rebirth: From a Perspective of Small Countries in Central and Eastern Europe*, Tokyo: Bunshindo.

Koyama, Yoji (2017), Changes in the Slovenian Society: From the Second Half of the 19th Century to the Early 21st Century, *Journal of International Studies and Regional Development* (Association of International Studies and Regional Development).

Koyama, Yoji (2018), *Slovenia: the Best Performer of the former Yugoslavia*, Yokohama: Gunzoshia.

Shiba, Nobuhiro, et al. (eds) (2017), *60 Chapters to understand Slovenia*, Tokyo: Akashi Shoten.