

## **SUMMARY OF “POLITICAL ECONOMY OF RESTRUCTURING IN SERBIA”**

The aim of this paper was to explore, from the political economy perspective, public policy towards enterprise restructuring in Serbia in the post-2000 period, including incentives to decision-makers for such a policy, its achievements, and dynamics. Also, the goal was to empirically test whether in Serbia economic issues, such as employment and real wages, are dominant factors for voters in deciding whether to vote for pro-reform or anti-reform political parties.

We find that economic variables are mostly statistically insignificant, but that employment in failed companies did influence voting behavior in 2000 and 2007.

The analysis of the 2000 elections shows that people who were employed in the failed companies were even then fully aware that their companies were not viable and that any reform-minded government would tend to reduce employment in those companies by restructuring or liquidation. Therefore, they responded by voting for anti-reform political parties in 2000. The explanation probably lies in the extreme risk-aversion among this group of voters. Although the reforms could in the long run prove to be useful even to this group of voters, it seems that they favored a situation in which they had a job, no matter how poorly paid, insecure and unsustainable it was.

The analysis of the 2007 election results leads to similar results. Other economic variables, besides the pace of restructuring, are statistically insignificant, including the level of employment in restructuring companies. However, the pace of restructuring (measured by the change in employment in these companies) is statistically significant and of the expected sign. Strong positive correlation (0.723) between the level of employment in these companies and the change of employment (slower change and higher level of employment) could be an indicator that politicians tended to restructure more quickly in the municipalities where the share of that employment was relatively low. Clearly this was considered a less politically risky type of operation than in municipalities with substantial shares of total employment in firms under restructuring.

The most interesting results (and probably the most difficult to interpret) come from the third regression model, the one aimed at explaining the relative differences in votes for anti-reform parties between the 2000 and 2007 elections. Employment in companies in the restructuring process is statistically insignificant, meaning that the observed increase in support for anti-reform parties from 2000 to 2007 had nothing to do with enterprise restructuring.

The paper also touches on the statistical significance of belonging to four broad regions of Serbia. The authors found that, controlling for all other factors, regions in Serbia do play an important role, but the authors were unable to fully explain the reasons for these differences.

He authors also uncovered a quadratic relation between the share of Serbs and votes for antireform (basically nationalistic) parties. This suggests that there is some local maximum of antireform voters (at about 65-70% share of Serbs in the total population). The reduction in the votes that antireform parties get when the Serbian share of population is higher might mean that in those municipalities ethnic Serbs tend to feel secure and nationalistic issues are therefore not at the top of the agenda. Conversely, a smaller share of Serbs means that the majority of the local constituency is made up of national minorities who have few incentives to vote for Serbian nationalist parties anyway. In short, the smallest increase of votes for non-reform political parties is found in municipalities which are the least ethnically mixed.

Secondly, the signs of the coefficients of the “demographic” variables are mostly unexpected (negative), which means that older populations and less educated electorates have tended to switch from antireform to pro-reform parties. Taking into account that average pensions have increased in real terms, as well as the fact that pension arrears have been cleared, this result could still make sense. Also, since most elderly people tended to vote for antireform parties in 2000 (regression 1), a cynical view would be that their support could only go down as their numbers naturally dwindle. The other negative sign of the parameter, linked to the education level, is more difficult to explain as it means that the municipalities with lower average education levels also tended to switch from anti-reform to pro-reform parties. A potential explanation could be that people in those municipalities have strong feelings towards the government and authority and therefore tend to vote for whoever is in power.

The impact of the last two variables is challenging to explain, since both GDP *per capita* and change in employment are positively correlated to votes for anti-reform parties, and these two are the only economic variables whose estimated parameters are significant. One potential explanation could be that the Serbian constituency overall does not have sufficient reform stamina, i.e. that there is a phenomenon of reform fatigue which has already surfaced. Hence, seven years into the transition, as living standards have increased, voters have had enough and are moving towards non-reform political parties that will stop or at least decelerate the reform process.

The main finding of the paper is that the conventional wisdom regarding enterprise restructuring in Serbia is wrong: enterprise restructuring does not decrease the political popularity of reform-oriented incumbent government. On the contrary, lack of restructuring and keeping employment in these firms proved to be a breeding ground for political support for antireform parties. The main reason is that labor employed in these firms have no illusions about the sustainability of these firms (and of their jobs in these firms), so that their rational expectation is that reform-oriented parties will make them unemployed. Taking into account the high level of risk-aversion of that group of voters, its obvious choice is to vote for antireform political parties.

As a consequence, incumbent political parties can push forward enterprise restructuring without a significant political risk. Their employees already vote for non-reform political parties.