Twenty years after the dissolution of Yugoslavia: Slovenia's government in crisis

Markus Salzmann
27 June 2011

Slovenia's wealthy elite, together with the Slovenian government, are this weekend celebrating the 20th anniversary of the country's declaration of independence from Yugoslavia by staging a major act of state, a ceremonial session of parliament, and a special religious service. Besides Austrian Federal President Heinz Fischer, leading government dignitaries from other European Union (EU) countries have announced they will attend.

But the population is certainly in no mood to celebrate. Twenty years after the introduction of the capitalist free market economy, abject poverty and misery are ruining the lives of many people in this small country between Italy, Austria, Hungary and Croatia. A large majority expressed bitter opposition to the government's planned pension reform at the beginning of the month.

Following its failed referendum and internal conflicts, the Slovenian minority government of Prime Minister Borut Pahor is facing disaster. In the wake of the economic crisis in the former Yugoslav Republic, the EU and the International Monetary Fund (IMF) are exerting strong pressure on the country and demanding radical austerity measures along the lines of the Greek model.

Following the second-largest government party, Zares, the Liberal Democracy of Slovenia (LDS) announced its departure from the centre-left coalition, dominated by Pahor's Social Democrats (SD) party. The Democratic Party of Pensioners of Slovenia (DeSUS) had already broken away.

In order to retain the Liberal Democrats, Prime Minister Pahor would have had to reshuffle the whole cabinet. However, Pahor categorically refused the demand for such a comprehensive restructuring of the government. Instead, he wants to continue ruling with a minority government until the election in the autumn of 2012.

Despite the failure of the pension reform, the SD aims to carry out further brutal cuts in social spending through reforms to the labour market and health services. The pension reform was rejected by an overwhelming majority of 72.2 percent of the population on June 5. But Pahor has no intention of acceding to the vast number of no votes. To shatter public opposition, he announced his determination to force another draconian austerity programme through parliament and, in this context, to seek a vote of confidence.

It was proposed that the budget deficit could be reduced by billions of euros, by raising the retirement age to 65 (currently 61 for women and 63 for men). After the failure of the referendum, Pahor and EU representatives announced more stringent austerity measures, similar to those in Greece.

Disappointed by the outcome of the referendum, Pahor declared that the failure of pension reform had caused Slovenia to miss an opportunity to board the "German-French train" in the EU. He told reporters, "Maybe we can climb on board at the next station; but there won't be many more chances for us to do that".

The Social Democrat wants to put together a huge austerity package so that Slovenia can meet Brussels' demands as soon as possible. It is envisaged that the package will amount to cuts in social spending of around €300 million per year, including a 5 percent pay reduction for all 160,000 state employees.

The Slovenian referendum was closely observed by the EU. Previously, EU Council President Herman Van Rompuy had visited Slovenia in order to beat the drum for pension reform. Jean-Claude Juncker, president of the Eurogroup of European finance ministers, described the reform in an open letter as "inevitable". German Chancellor Angela Merkel's government also praised it as "a meaningful step towards the sustainable financing of social security".

Slovenia's debt has risen from 22.5 to 43.3 percent of gross domestic product in the past three years. The unemployment rate has doubled to over 12 percent since the start of the financial crisis. Numerous flagship companies are facing financial hardship, and loan defaults amounting to billions threaten the state banks.

Slovenia was seen as a model country until the onset of the financial crisis. In 2007, it was the first of the new EU members to adopt the European common currency.

However, the global economic crisis dealt Slovenia's export-oriented economy a heavy blow, leading to a fall of the gross domestic product by 8.1 percent in 2009.

Since the failed referendum, business representatives have been calling for the replacement of the government so that the austerity measures can be imposed without any further ado. "The government hasn't got the budget deficit under control. A few years ago, it wasn't a problem", said Hermine Vidovic, Slovenia expert from the Vienna Institute for International Economic Studies.

"The referendum revealed that citizens voted not only against the three laws, but against the government as well", declared Zoran Potic, editor of Slovenia's biggest newspaper *Delo*, in an interview with the Swiss economic journal *Wirtschafts-Blatt*.

"At the moment, the capital market isn't interested in Slovenia. Its stock market is too small and doesn't have enough liquidity", said Alexander Dimitrov, head of the eastern European fund Espa. "Promises are nice, and Slovenia makes plenty of them. But investors now want to see something concrete. The government in Slovenia really has to deliver, and now. If it does, investors will again become interested in names like [Slovenian white goods manufacturer] Gorenje and [Slovenian retailer] Mercator", Dimitrov urged.

Borut Pahor's government is now trying to show the EU he has the situation under control by conducting new rounds of negotiations with the trade unions. The referendum on pension reform had been forced on the government by the unions, backed by 50,000 signatures.

Earlier this year, the Pahor government made it clear where the funds extracted from the population would be flowing. The country's largest bank, the Nova Ljubljanska Banka, was saved from bankruptcy by millions of euros in subsidies. In addition, the government supported other private and semi-state enterprises, such as the Slovenian railways, which will be privatised—in line with the policy of the SD—as soon as possible.

Due to recent events, early elections have become increasingly probable. The conservative opposition leader, Janez Jansa, demanded immediate new elections as a consequence of the government's recurring defeats. The DeSUS pensioners' party and the right-wing conservative Slovenian People's Party (SLS) supported this demand from Jansa's Slovenian Democratic Party (SDS).

Jansa had already been prime minister from 2004 to 2008. His centre-right government aroused the wrath of broad layers of the population during this time, because he enforced brutal austerity programmes in the wake of the introduction of the euro. Observers agree that it is unlikely he would be able to form a stable government.

Jansa made a name for himself as defence minister in the Slovenian Communist Party in the 1990s. He organised the Slovenian militia in the so-called Ten-Day War of 1991—when, after Slovenia declared independence, Slovenian territorial forces fought Yugoslav federal troops, who were forced to withdraw from Slovenia after a few days.

However, Jansa soon broke from the old Communist Party and took over the SDS, which then (1993) still described itself as social democratic. He pushed through a sharp turn to the right. Based on a mixture of national chauvinism, anti-Communism and social demagogy—which earned him the nickname of the "Slovenian Haider" after Jörg Haider, the deceased leader of the far-right Austrian Freedom Party—he has tried and failed to effect a change of government twice in recent years. As in 2004, his party benefited exclusively from the people's rejection of the SD and the LDS.

The unions do nothing to oppose the attacks on the population. Following the success of the referendum against the government, they were soon back in negotiations with the Pahor government to hammer out further cost-cutting measures. Numerous union leaders openly support Pahor's reform policy.

Politicians, entrepreneurs and trade unionists in Slovenia have been working closely together since the the country's independence. This cooperation played a crucial role in the privatisation of state enterprises in the early 1990s. It suppressed every onset of working-class opposition to the sale of the Slovenian economy to private interests. The largest trade union federation, the Association of Free Trade Unions of Slovenia, describes itself as "an active partner in the privatisation process".

It is no coincidence that almost all the unions in Slovenia fully supported the country's entry into the EU and the euro zone, although this was to have such grave social consequences for the population.