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## Slovakia's Neoliberal Turn

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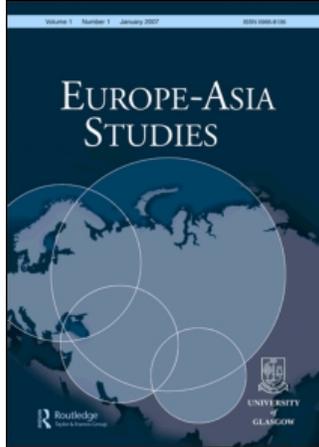
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### Slovakia's Neoliberal Turn

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## Slovakia's Neoliberal Turn

SHARON FISHER, JOHN GOULD & TIM HAUGHTON

### *Abstract*

Slovakia distinguished itself in the first half of this decade by launching a coherent set of economic reforms that limited government and transferred social and economic risk to individuals. We examine reforms in fiscal policy, pensions, the labour code, health care, investment, education and justice. While the surprise formation of a centre–right governing coalition in 2002 enabled Slovakia's 'neoliberal' turn, a close network of neoliberal policy makers and advisors from civil society organisations used the opportunity to push forward a compelling explanation of Slovak economic problems and promote a clear institutional design for fixing them.

IN THE SPAN OF JUST SIX YEARS, SLOVAKIA SHED ITS REPUTATION as the 'black hole of Central Europe', becoming arguably the region's most dynamic business environment. This article explains why the country took a neoliberal turn in 2002–06. After outlining the main tenets of neoliberalism and the policies at the heart of the neoliberal programme in Slovakia, we examine a number of different explanations for that shift. We argue that the neoliberal turn emerged from a deep, ideologically informed collaboration between highly placed political officials and innovative policy advisors. Offering solutions to a clear crisis in previous post-communist policy ideas, these personal and professional networks of innovative neoliberal thinkers came into power with the surprise establishment of a consolidated centre–right government after the 2002 parliamentary elections. Over the next four years, they built neoliberal principles into Slovakia's most important social and economic institutions.

Liberalism emphasises the economic rationality of market coordination over state coordination of economic behaviour. Neoliberalism, by contrast, is a controversial label for what critics feel is an extreme variant of liberalism. Given the term's essentially contested nature, most economists avoid the term altogether. Nevertheless, 'neoliberalism' remains a popular term among non-economists. In this article,

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neoliberalism refers to liberal economic policies that increase personal responsibility for one's own wellbeing and that seek to dismantle institutions that socialise the risk of failure in the economy (Harvey 2006, p. 145).

Neoliberalism is frequently used to describe economic policy in Slovakia during the period 2002–06 under the government of Prime Minister Mikuláš Dzurinda, particularly regarding the approach of his Minister of Finance, Ivan Mikloš. That reputation is to a certain extent justified, as Slovakia's government distinguished itself in Central Europe for its consistent adoption of liberal and neoliberal reforms between 2002 and 2006. While Slovakia's reformers did not accomplish everything they wanted, they were able to put a neoliberal stamp on fiscal policy and taxation, the labour code, the pension system, investment regime, welfare payments, the justice system, and the health and education sectors.

We seek neither to praise nor condemn neoliberalism. Rather, we explain why such reforms emerged where they did and when they did. That Slovakia would take a neoliberal turn in 2002–06 is somewhat of a puzzle that cannot be fully explained by such arguments as European Union (EU) accession, the competition for foreign capital, demographic shifts or cultural change. Instead, we argue that neoliberalism emerged thanks to domestic political factors, influenced by the emergence of a parliamentary majority for centre–right parties in the 2002 elections. Neoliberal ideas generated a persuasive narrative for Slovakia's past economic crisis, helped de-legitimise the design of incumbent institutions based on principles of social solidarity, and served as the blueprint for new institutional frameworks that promised to move the country forward. A number of the cabinet members such as Minister of Finance Mikloš were neoliberals or relied on advisors with neoliberal leanings. Armed with policy packages and firm convictions in the merits of their ideas and proposals, a small group of reformers pushed through radical solutions, thanks in no small part to the structure of party politics and the weakness of the opposition.

It is important to note that despite the emphasis on neoliberalism in the period 2002–06, the government also included reformers from outside the neoliberal fold who sought to preserve aspects of Slovakia's social democratic inheritance. As a result, the Mikloš–Dzurinda reform era did not fully replace Slovakia's communist-era welfare state with a neoliberal regulatory state.<sup>1</sup> Indeed, Slovakia never went as far as countries like Estonia in cutting expenditures. In nominal terms, state budget spending actually rose by about 8% in 2004, the year that the government implemented the bulk of the tax changes. Indeed, in a broader comparison of redistributive versus competitive states, Slovakia ranked squarely in the middle, with the highly neoliberal Estonia and the redistributive Sweden anchoring opposite ends of the scale (Hanson 2007).

What emerged in Slovakia was a hybrid form of neoliberalism. Ironically, Slovakia's addition of select radical market solutions to post-communist era problems

<sup>1</sup>By 'regulatory state' we refer to the state type advocated by Milton Friedman (1962, pp. 1–22) as a state that maximises economic freedom providing only those public goods necessary to its function, e.g. defence, protection of property rights, enforcement of contracts, control of money and dealing with significant externalities (*neighbourhood effects*).

could have the long term effect of saving some of the redistributive aspects inherited from communism's 'premature welfare state'. The new fusion might even make the new neoliberal elements politically sustainable in the long run, and thus work to the benefit of the left-leaning government of Robert Fico, whose political party, *Smer–Social Democracy* (*Smer–sociálna demokracia*, *SMER–SD*) took power after the June 2006 parliamentary elections. While it is still too soon to tell, Slovakia's neoliberal direction appears to have taken the country towards a unique form of 'social liberal' capitalism: a fusion of social safeguards and growth-oriented state interventions with strong market forces and personal responsibilities for navigating the challenges they present (Orenstein 2001).

### *Transitology and neoliberalism*

According to Stark and Bruszt (1998) post-communist neoliberalism is a form of 'transitology'. Liberal economists idealise a perfect market economy, compare it with existing economic systems and plot a reform trajectory between the two that provides policy guidance. Regardless of their orientation, economists generally agreed about the basic tasks to be undertaken in the early transition period. Here, we follow the lead of Jeffery Sachs (1994) in breaking this reform trajectory up into three main areas of reform: macroeconomic stabilisation, trade liberalisation and structural change.<sup>2</sup> Neoliberals distinguished themselves, however, by advocating rapid reform advancement, while 'gradualists' called for slower reform sequencing to alleviate the social pain of transition.

Macroeconomic stabilisation sought to release and then stabilise prices—largely through removing price controls, restricting money supply and restraining government spending. Depending on exchange rate policy, trade liberalisation potentially unleashed competition by opening domestic markets to foreign competition, permitting entrepreneurs to engage in trade and breaking up monopolies. As a result of structural changes, banks and enterprises were privatised and an enforceable contract and bankruptcy framework was created to ensure there would be stiff penalties for failure to meet obligations (Sachs 1994).

Each country followed its own policy trajectory, in part a product of its specific political environment and distinctive transition from communism. Neoliberals and gradualists each won many policy battles and scored both failures and successes. With hindsight, however, the exact mix of reforms was a less important determinant of general economic success than the level of political competition prevalent after the fall of communism (Orenstein 2001; Vachudova 2005).<sup>3</sup> Most of the EU's initial post-communist entrants had completed the first two reform tasks and were swiftly winding up the third by the time of their accession in May 2004.

Over the last 10 years, neoliberal policy makers have shifted their emphases from creating the basic elements of a market economy to building economic institutions

<sup>2</sup>See also Fischer and Gelb (1991).

<sup>3</sup>Ultimately, the major precursor of economic success was a complete political transition which enabled an open society to prevent political insiders from hijacking reforms at their expense (Hellman 1998; Fish 1998; Vachudova 2005).

crucial to the successful functioning of the state.<sup>4</sup> Ideally, they seek highly competitive, capital friendly economies in which citizens are increasingly responsible for their own economic success and failure. They argue that institutions promoting social solidarity create a ‘moral hazard’ that rewards rent-seeking behaviour and punishes entrepreneurialism.

For critics like John Gray (1998), neoliberalism replaces contextualised forms of social solidarity ensuring minimal guaranteed outcomes with a system of ‘self-help’ in which uncertainty about one’s economic future motivates individuals to act. Individuals either prove their worth on the competitive market or they suffer significant personal penalties—usually in the form of poverty. Unfettered liberal markets thus *organise* society (Gray 1998; Polanyi 1944). Under the principle of social solidarity, it is the other way around. This project of course places neoliberals in clear opposition to the contemporary left, which emphasises a mix of the competitive market and guarantees of social solidarity. Social liberals and neoliberals both agree that the post-communist institutional legacy is flawed and in need of reform. Yet, while the left and centre left seek to reform these institutions and preserve some minimal vestiges of social solidarity, neoliberals seek to eliminate these guarantees altogether. These different perspectives set the context for the battle of policy ideas in Slovakia in the new century.

#### *Neoliberalism in Slovakia*

Before embarking on an analysis of why Slovakia took its neoliberal turn, this section outlines the key reforms of the 2002–06 period.

#### *Fiscal prudence and structural reform*

The first Dzurinda government (1998–2002) inherited a macroeconomy deeply out of balance. On the fiscal front, mismanagement had driven rising deficits in 1996–98. Moreover, the cabinet struggled to cover the costs of transforming a banking sector on the verge of insolvency, as well as to address new obligations in the form of five-year privatisation bonds that were introduced by the previous cabinet in 1996. A fiscally prudent approach slowed GDP growth but stabilised the economy—thus placing Slovakia on a sound footing to begin the effort to meet euro convergence criteria.<sup>5</sup> Still, with the communist-successor Party of the Democratic Left (*Strana demokratickej ľavice*, SDL) as the second largest party in the government, holding key portfolios such as finance and labour, there was no room for radical change.<sup>6</sup> The

<sup>4</sup>Indeed, liberals broadly acknowledge that they mistakenly overestimated markets’ ability to regulate themselves (IMF Staff 2000, p. 93; World Bank 2002; Schwartz 2006).

<sup>5</sup>The criteria laid down in the Treaty on European Union requires a state to have a budget deficit no more than 3% of GDP, public debt of no more than 60% of GDP, membership in the Exchange Rate Mechanism for two years prior to euro adoption, a level of inflation no greater than 1.5 percentage points above the average of the three best performers in the EU and long-term interest rates no more than 2 points above the average of the lowest three (European Union 1997, p. 93).

<sup>6</sup>SDL was split on the magnitude of economic reforms needed. Some representatives such as Finance Minister Brigita Schmögnerová, were in favour of more radical reform (see Haughton 2004).

government was frequently under fire from journalists and other civil society actors for failing to implement broader reforms.

Anchored by Finance Minister Mikloš, Dzurinda's more coherent centre-right 2002–06 government offered continuity with the economic policies of the previous cabinet, but deepened the reforms with a distinctly neoliberal character. The Slovak Finance Ministry put forward its initial draft of fiscal reforms in April 2003, with a revised version approved by the ruling coalition the following month. While one of the main aims of the reforms was to reduce the public finance deficit below 3% of GDP by 2006 to conform to the Maastricht criteria, other key benefits included simplifying the taxation system and reducing tax evasion. In addition, the reforms sought to raise competitiveness and promote investment, with the aim of spurring more rapid economic growth to help Slovakia catch up more quickly with the other EU member states.<sup>7</sup> While other countries in the region had implemented elaborate investment incentives to attract foreign firms in the 1990s, those policies would have to be phased out once EU accession was achieved. Thus, Slovakia's fiscal reforms were seen as a way of maintaining a favourable investment climate within the boundaries of EU legislation.

The main elements of the fiscal reform included the following: a unified rate of value-added tax (VAT) at 19%, thereby abolishing the previous two-tiered system, which had included a reduced rate for food, medicine, and other necessities; an increase in excise duties on cigarettes, fuel, and alcohol to meet EU standards; a flat corporate income tax at 19%; a flat personal income tax at 19%, cancelling the previous progressive taxation system; and cancellation of the dividend tax, real estate transfer tax, gift tax, and inheritance tax. Parliament approved this package in late 2003 and the reforms took effect on 1 January 2004. Despite the drop in income tax rates, Finance Minister Mikloš sought to retain total tax revenue levels by shifting to higher indirect taxes, simplifying the tax system and eliminating loopholes that allowed for tax evasion.

It must be noted that although the introduction of the flat tax naturally benefited the rich, the authors of the legislation were keen to ensure the poor were not hit hard by any fiscal changes.<sup>8</sup> In fact, as a result of raising the portion of citizens' income that was untaxed, poorer Slovaks were exempt from paying income taxes altogether. The rise in the VAT and excise tax was a harder sell, given that those measure meant that the middle class was slightly worse off after the reforms, at least in the short term (Goliaš & Kičina 2005).<sup>9</sup>

<sup>7</sup>In purchasing power parity terms, Slovakia's per capita GDP reached only 51% of the EU-25 average in 2002 (Eurostat 2005).

<sup>8</sup>Martin Bruncko, interview with Tim Haughton, Bratislava, 26 April 2007.

<sup>9</sup>Slovakia's approach toward taxation corresponded with previous examples of neoliberal reform packages, as they often involve at least initially a rebalancing between direct and indirect taxation in favour of the latter. Margaret Thatcher, for example, raised VAT rates substantially in her first term. However, social democrats often deride raising VAT rates because of the negative impact such hikes have on poor and middle-income citizens. Regardless, higher taxes of any variety go against the grain of neoliberalism. Even fans of the Slovak government's policies such as Steve Forbes criticised the 2002–06 government for raising VAT (TASR 2003).

Slovakia's introduction of the flat tax was seen as especially bold since the country was the first to take this step at a more advanced stage of transition. As a result, some observers were concerned over how the taxation changes would impact budget revenues. In 2004, the cabinet was very modest in its revenue expectations, planning for a 24% year-on-year drop in corporate income tax revenues and a 42% decline in personal income tax receipts. Nonetheless, in both cases, the government was pleasantly surprised, as the former actually rose slightly over the 2003 level, while the latter fell by less than 21%.<sup>10</sup> The cabinet's plan to raise VAT revenues substantially in 2004 was perhaps the riskiest element of the tax reforms. In 2003, weak household consumption and investment meant that the government fell far short of its target for VAT receipts, forcing it to take emergency measures by raising excise taxes on certain products in August 2003. Nonetheless, VAT receipts comfortably met their targeted level in 2004.

Ironically, while liberals, and most notably Steven Forbes (Forbes 2003), praised Slovakia for its flat tax, the reform was seen regionally as a pragmatic solution to the post-communist world's pervasive tax evasion problems. As a result, the flat tax has been adopted by governments of different ideological hues. Estonia was the first country in the region to adopt such an approach, introducing a flat tax on personal and corporate income at a rate of 26% in 1994. That proved very successful in spurring higher revenue collection, and Estonia was followed by Lithuania (1994), Latvia (1995), Russia (2001), and Serbia (2003). Slovakia's successful taxation reforms spurred several other post-communist countries to follow suit. Nonetheless, Slovakia went further than its regional peers in simplifying its overall taxation system and accompanying those changes with sweeping reforms in other areas.

#### *Labour code and investment*

Neoliberals in Slovakia's 2002–06 government scored a clear ideological victory with significant changes to labour market policies (Gonda & Dostál 2005, pp. 542–43). Under the 1998–2002 government, the Minister of Labour together with the trade unions had stewarded into law the 2001 Labour Code that raised the cost of labour, severely restricted labour mobility, and gave broad powers to the trade unions regarding the firing of workers. Although some of the most restrictive initial provisions were removed after pressure from concerned professions before the code came into force, it still ensured a less flexible labour market.

After the 2002 elections, neoliberals within the new Labour Ministry initiated amendments that increased the flexibility of the labour market, including incentives to return to the workforce faster (Gerbery & Kvapilová 2006). New legislation, for example, required all those registered as unemployed to actively seek employment and attend the local labour office every fortnight. The new legislation won the praise of foreign and domestic investors and conservative commentators. These reforms

<sup>10</sup>Ministry of Finance, 'Správa o naplnení Stratégie konkurencieschopnosti Slovenska do roku 2010, jej akčných plánov a Národného programu reforiem SR—nové znenie', paper prepared for cabinet meeting, 8 March 2006, available at: <http://www.rokovania.sk/appl/material.nsf/0/CC597604E08AC189C125712B003121F3?OpenDocument>, accessed 15 September 2006.

contributed to the World Bank's assessment of Slovakia as a top reformer on a global basis in its *Doing Business 2005* study (Mathernová & Renčko 2006, p. 637).<sup>11</sup> In addition, the government abolished the Tripartite Act in autumn 2004, reducing trade unions and employers organisations' 'privileged status when negotiating with the government' on key socio-economic bills to a mere 'advisory role' (Gonda & Dostál 2005, p. 543). Although these moves produced predictable howls of discontent from the trade unions, weak leadership and internal divisions limited the power of the unions to thwart the changes (Malová & Rybář 2005). By 2006, Slovakia had Central Europe's third most capital friendly employment regime.<sup>12</sup>

Aside from offering a simple 19% flat tax and an employer-friendly labour code, the Dzurinda government encouraged investors in other ways. In 2005, Mikloš issued a table that clearly stipulated incentives for investing in high value-added enterprises on the one hand and investments in areas with high unemployment on the other. The new criteria and incentives reduced the subjective discretion of ministers and bureaucrats. The measures were arguably a backhanded attempt by the Minister of Finance to prevent non-transparent and often aggressively generous investment deals struck by former Minister of Economy Pavol Rusko (2002–05). Yet they also represented a clear move towards the neoliberal goal of a self-limiting, rule-governed regulatory state.

### *Pensions*

Pension reforms transferred greater responsibility for retirement savings and pension-fund investment choices to the individual, while they simultaneously provided a potential boon to Slovakia's relatively dormant capital market—both favourite neoliberal goals. Reforms allowed workers to deposit part of their current contributions into a personal account managed by a private pension fund company. Pension reforms were based on a three-pillar system that went into operation in January 2005. For those switching to the new system, 10% of gross wages would go to personal accounts, 10% to the pay-as-you-go system, and 8% would be allocated to pensions for invalids and widows. While young people entering the labour market for the first time were required to use the new system, other citizens could choose between personal pension accounts and the pay-as-you-go scheme. Those who would be retiring before 2008 could not switch to the new scheme.

By injecting capital into Slovakia's capital markets, the pension reforms thus provided a supply side boost to the economy at the expense of greater risk to the savings of individual investors. While initial expectations foresaw significant resistance to the new neoliberal pension regime, an effective public relations regime ensured that it was far more popular than the government had originally expected,

<sup>11</sup>World Bank, 'Doing Business—Economy Rankings: Europe & Central Asia, Private Sector Resources', World Bank, Washington, DC, 2006, available at: <http://www.doingbusiness.org/EconomyRankings/?regionid=425>, accessed 25 October 2006.

<sup>12</sup>World Bank, 'Doing Business—Economy Rankings', World Bank, Washington, DC, 2006, available at: <http://www.doingbusiness.org/EconomyRankings/?regionid=425>, accessed 25 October 2006.

perhaps also due to the low level of benefits that pensioners were receiving through the previous system.

### *Healthcare*

Healthcare was the most controversial of the reforms implemented during the 2002–06 term. The poor state of affairs in the sector necessitated some form of change. The healthcare reforms attempted to make hospitals, healthcare insurance and consumers cost-conscious. Previously, hospitals and insurance companies could not become insolvent—creating numerous forms of moral hazard. There was little incentive to eliminate waste or improve services. Since prices did not reflect demand, key medical services were underprovided, poorly administered and left open many opportunities for corruption.

Presented as a package of six bills, healthcare reform sought to transform providers into competing businesses. Hospitals were expected eventually to operate entirely out of their own revenue and were forced to compete for patients. Similarly, the reforms transformed state-owned insurance companies into profit-driven joint stock companies and opened up the insurance market to private competitors.

Consumers were similarly expected to take greater responsibility for their health care. To discourage them from seeking unnecessary care and to encourage them to make cost/benefit calculations in their healthcare consumption, consumers now had to pay numerous co-payments and fees. Consumers also found that insurance companies could drastically limit access to many often quite basic treatments. Strong resistance from medical care professionals and the public led to a significant backlash against the broader neoliberal blueprint.

### *Education*

Education reforms similarly sought to transfer responsibility for higher education from the state to students and their families. Neoliberals in the Ministry of Education proposed significant tuition fees and measures to force private and public universities to compete on an even playing field. But these measures highlighted differences of opinion on education policy among reformers within the government between those supporting a partial transfer of costs to students and those committed to strict meritocracy regardless of income and background.<sup>13</sup> The education reforms were the only key aspect of the 2002–06 government's reform package that failed, as the ruling parties were unable to agree on the approach.

Despite the failure of the education reform package, the centrality of education to Mikloš's plans was evident in his Minerva programme, designed to meet the Lisbon goals of making the EU the most dynamic knowledge-based economy in the world by 2010.<sup>14</sup> The programme's focus on education in 'high tech' sectors was meant to

<sup>13</sup>Indeed, even some supporters of a neoliberal direction in other areas of reform split on this question. For example, Martin Bruncko, a close Mikloš aide who was an architect of the Minerva Programme (see below), was opposed to charging fees for university education.

<sup>14</sup>TA3 (Slovak TV), 21 January 2005.

ensure Slovakia's continued attractiveness as an investment environment in the medium to long term. Although some success was achieved before the 2006 elections,<sup>15</sup> Mikloš was planning to develop the programme further after the elections and made it clear that he wanted to serve as education minister in the next cabinet.

### *Justice reform*

Critics of neoliberalism frequently point out a connection between neoliberal policies in the United States, a more punitive legal system and higher rates of incarceration (Gray 1998; Williams 2004). They speculate that as markets reorganise societies along principles of market competition and personal responsibility, existing social structures break down and become fragmented and criminality supposedly increases. The neoliberal response is to increase punitive sanctions for actively and passively irresponsible social and economic behaviour. It is thus not surprising to find American-inspired judicial reforms accompanying Slovakia's neoliberal turn. In April 2004, Slovakia's parliament adopted a *trikrát a dost* (three times and enough) life sentence provision for repeat violent offenders. American trained Minister of Justice Daniel Lipšic modelled the legislation on the Californian 'three strikes and you're out' system. In 2003 he argued that 'isolating' the small number of repeat offenders from the rest of society would dramatically reduce violent crime (Williams 2004).

That these and other instrumental (or 'rationalist') justifications were subsequently proven incorrect elsewhere has led Kieran Williams to argue that the 'real' reasons for the reform include a need among traditionalists within and supporting Lipšic's party (Christian Democratic Movement, *Kresťanskodemokratické hnutie*, KDH) to address anxieties about morality and social cohesion during the inevitable period that accompanies the upheaval following the breakdown of communism. Moreover, it is suggested, the measures help to encourage 'active responsibility' by increasing the negative sanctions associated with asocial behaviour that accompanies Slovakia's move to an (economically) freer and more individualistic society (Williams 2004; Gray 1998). As Slovaks took on more responsibility for their economic fortunes, the legal system provided a new set of penalties to encourage socially functional behaviour.

### *Explaining Slovakia's neoliberal turn: why are neoliberal policies adopted?*

Having outlined the detail of the neoliberal reforms, we now turn to a series of possible explanations. Slovakia's broad package of neoliberal reforms was virtually unique in the region in the 2002–06 period. International-level explanations *per se*, therefore, do not suffice as explanations for Slovakia's neoliberal shift. Although EU accession, membership in international organisations and the need to compete and flourish in the global market placed similar pressures on countries throughout Central and Eastern

<sup>15</sup>For example Ministry of Finance, 'Správa o naplňaní Stratégie konkurencieschopnosti Slovenska do roku 2010, jej akčných plánov a Národného programu reforiem SR—nové znenie', paper prepared for cabinet meeting, 8 March 2006, available at: <http://www.rokovania.sk/appl/material.nsf/0/CC597604E08AC189C125712B003121F3?OpenDocument>, accessed 15 September 2006.

Europe, policy responses were significantly different (EBRD 2005). EU conditionality encouraged marketisation and liberalisation, but it did not prescribe a specifically neoliberal agenda. Membership accords plenty of room for manoeuvre, as the different socio-economic models in evidence in the EU show (Hanson 2007). So the Slovak government's choice of neoliberal reforms is therefore underdetermined and needs additional explanation.

Nor can competition for foreign investment fully explain the adoption of such policies. While logics of globalisation might have played a role in some reforms, they do not explain why some countries have accommodated them with neoliberal reforms while others have not. The pressure to attract foreign investment was arguably greater in Slovakia as opposed to the Czech Republic and Hungary, but that owed much to the past. The negative image of Slovakia created during Vladimír Mečiar's term as prime minister (to which we will return below) meant that investment inflows were much lower during the 1990s than elsewhere in Central Europe. Moreover, as Hay's (2006) analysis of Western Europe has shown, the argument that globalisation will automatically lead to welfare retrenchment and convergence is 'empirically suspect'. He demonstrates that although common trajectories could be identified, changes to the social models in Western Europe tended to be implemented with varying degrees of enthusiasm and speed resulting in different outcomes. In other words, his analysis leaves space for domestic politics to matter. Global and regional pressures place limits on change, but they also create frameworks of opportunity.

Demographic explanations for Slovakia's neoliberal turn can also be ruled out. The most convincing form of the demographic argument would contend that Slovakia's older nationalist-populist leaning generation is dying out, resulting in a slow decline in paternalist attitudes towards the relationship between the state and the market. Yet Deegan-Krause has shown that, despite a liberal behavioural shift during the mid-to-late 1990s, the relationship between demographic variables and attitudes has remained relatively stable. The number of young, urban and educated citizens, the mainstay of political and economic liberalism, has indeed grown in the last decade but not nearly enough to explain Slovakia's neoliberal direction (Deegan-Krause 2006). Similarly, since culture changes only gradually over time, cultural arguments are generally very poor at explaining rapid and significant changes in policy (Pateman 1971). In sum, international level, demographic and cultural explanations cannot explain the Slovak outcome. While some elements may have contributed to the shift, the real causal mechanism can only come from an internal political explanation.

The establishment of a coherent centre-right coalition following the 2002 parliamentary elections was of course a crucial prerequisite for reforms, helping to create the political opportunity structure. Moreover, three key aspects of party politics: the structure of party competition, party organisation and the weakness of the opposition played an important role in ensuring the implementation of neoliberal policies. Yet all three of these factors could potentially have ensured the introduction of a set of policies inspired by a different ideology. Right and centre-right governments have come and gone throughout the region and have implemented different policy packages. So why did Slovakia's centre-right government turn the country towards neoliberalism?

In an attempt to resolve the puzzle, this article adopts a model of institutional change introduced by Mark Blyth. Materialists see ideology as providing a 'cover story' for influential actors. Idea-based approaches, by contrast, give greater causal independence to ideas themselves. At the risk of oversimplifying a complex argument, Blyth (2002, pp. 34–44) argues that institutions emerge around ideas about how societies function. When crises occur, institutions perform poorly and people begin to question the ideas on which the institutions are based.<sup>16</sup> Crises are thus periods of institutional flux during which actors can develop alternative ideological narratives both to explain the crisis and act collectively and provide a blueprint for institutional responses that show the way forward. Of course, this ideological rivalry takes place at the political level, so attention must also be paid to the political placement and influence of actors who embrace narrative alternatives to help them navigate a period of uncertainty.

#### *The path toward neoliberalism in Slovakia*

The following section lays out the three ideological periods that Slovakia underwent between 1993 and 2006: 'Mečiarism', 'post-Mečiarism' and finally 'neoliberalism'.

#### *The rise and fall of 'Mečiarism'*

Radical stabilisation policy began in Slovakia on 1 January 1991 when Slovakia was still a constituent republic of the federal Czechoslovakia. Indeed, discontent with the consequences of federal Minister of Finance Václav Klaus's radical stabilisation policies played a significant role in the break-up of the Czechoslovak state on 31 December 1992 (Henderson 1995; Innes 2001; Stein 1997). In Slovakia, Mečiar led a vigorous opposition to Klausite reforms after his removal from the post of the republic's prime minister in April 1991. Mečiar argued that 'one size fits all' radical reforms designed in Prague could not take into account Slovakia's 'special conditions'. Greater Slovak control, Mečiar promised, would allow Slovaks to design 'appropriate' reforms that would enable the development of a 'social market' with minimal social disruption (Gould 2001).

Over the first five and a half years of Slovak independence (with a brief interlude in 1994), 'Mečiarism' replaced the Klausite economic vision. At the heart of this policy package was 'nationally flavoured' economic centralism (Williams 2000, p. 5) in which the state was viewed not as 'an economic safety blanket' but as 'an enabler' (Houghton 2001, p. 749). Although grounded in the writings of the Independent Association of Economists of Slovakia, especially Jana Černá and Peter Staněk (who became deputy finance minister in the 1994–98 government), the enthusiasm of Mečiar and his allies for their economic programme lay in the ability to deliver political goals. With hindsight we can now identify several key principles of 'Mečiarism': the subordination of economic and political policy to power politics; the use of nationalism and identity politics to attempt to de-legitimise opponents (and to spread fear in society about the dangers to the state); the weakening of the basic institutions of market democracy

<sup>16</sup>For a good overview and critique of institutional literature, see Blyth (1997).

where they gave opponents access to wealth or power; and giving priority to internal power considerations over external incentives in defence, foreign investment and joining the EU.

Although rather *ad hoc* and indistinct, the subordination of political and economic governance to power concerns took on a determined logic over time—particularly in the political governance of the economy. To justify such policies, Mečiar and his colleagues cultivated the image of a country at risk both from threats abroad and at home. As the founder of the Slovak state, Mečiar and his governing Movement for a Democratic Slovakia (*Hnutie za demokratické Slovensko*, HZDS) claimed knowledge of who was best suited to defend against these dangers, or in other words, he tried to define whom Slovaks could trust with wealth and power at home (Szomolányi 1998; Gould 1999; Appel & Gould 2000; Fisher 2006). Mečiar and HZDS were projected ‘as the protector of the newly independent Slovakia within a hostile world’ (Deegan-Krause 2004, p. 684). Indeed, the prime minister liked to portray himself as the father of the nation and his opponents as enemies of Slovakia (Mečiar 2000).

Once in power, the primary institutional target of Mečiarism was thus not tight Klausite fiscal policy (that came later, in 1997–98, once the IMF’s approval was no longer needed). Rather, after some wavering, Mečiar’s government sought to replace the coupon privatisation programme that had been launched before the break-up of Czechoslovakia (with a second wave introduced in 1994, when Mečiar was briefly in opposition) with an ‘non-transparent’ programme of direct sales to political allies and clients.

While neoliberal rhetoric argues that privatisation would ‘depoliticise’ the economy by removing firms from political control (Frydman & Rapaczynski 1994; Boycko *et al.* 1995), Mečiar and his allies used liberal ideals for illiberal ends. By controlling the privatisation process, they were able to solidify important economic alliances that would help them to maintain power after privatisation. Hence, while they identified many of the incumbent coupon privatisation programme’s flaws, their major problem with mass privatisation was that its benefits accrued to financial sector actors who supported their opponents, leaving the HZDS and its allies largely out of the circle of winners (Olsson 1999; Gould 2001; Fisher 2006). Under Mečiar’s leadership, Sergej Kozlík’s Ministry of Finance accordingly sought to expropriate property already privatised through vouchers via politicised regulation of the nascent capital market (Olsson 1999).

Mečiarism in practice required active parliamentary and executive attacks on the principles and institutions of a liberal democracy and a market economy. By weakening these basic institutions of a liberal market democracy, Mečiar’s ruling coalition could limit its opponents’ access to channels of power and capture control of economic transformation and management processes for themselves (Szomolányi & Gould 2000). These democracy-weakening policies also had an international impact. In summer 1997, Slovakia failed to enter both the first round of NATO expansion and EU accession negotiations. Moreover, foreign direct and portfolio investors avoided the new ‘black hole’ of Central Europe (Fitch 2001, p. 7), making the country increasingly reliant on foreign loans to finance growth based on credit transfers to key political clients. Such policies, of course, are unsustainable in the long run and by autumn 1998, the country was fiscally insolvent.

Mečiar, as mentioned, retained reasonably tight fiscal policy until 1996, when the broad fiscal deficit shot up to 8.6% of GDP (Eurostat 2005), before narrowing moderately in 1997–98. By then, however, the fiscal ramifications of his government's economic policies began to hit home. First, partial privatisation of banks and the resultant politicised lending to political clients undermined the financial sector. Added to this, evasion of tax and social payments (made even simpler for the governing coalition's political allies) and unreformed, inefficient communist-era social welfare institutions reduced revenues and raised expenditures. Also contributing to a deepening fiscal crisis was an increasingly expensive industrial policy for the politically connected defence and construction industries (Appel & Gould 2000). By 1998, large twin deficits destabilised the Slovak crown and crowded out domestic private sector investment. Mečiar's government limped towards the election by borrowing on short-term international markets at exorbitant interest rates to pay off long term debt (Jurzyca *et al.* 1999).

Mečiar's opponents organised both in parliamentary opposition and within civil society. Think-tanks and other non-governmental organisations (NGOs) such as MESA 10 (*Centrum pre ekonomické a sociálne analýzy*), the F. A. Hayek Institution (*Nadácia F. A. Hayeka*), Centre for Economic Development (*Centrum pre hospodársky rozvoj*, CPHR), Institute for Public Affairs (*Inštitút pre verejné otázky*, IVO) and many more worked to expose the flaws of Mečiarism and its associated spectre of a politicised statism. Most promoted 'liberalism' as the conceptual framework from which to launch institutional reform. Meanwhile, the embattled print and broadcast media gained valuable experience in unveiling the secrets of a government that abhorred accountability and transparency. By 1998, many of Slovakia's leading intellectuals and journalists had gained a first hand primer on the fragility of market democracy and the importance of the basic institutions of a self-limiting government. Many non-profit organisations took their opposition further, envisioning a completely changed Slovakia along the lines of neoliberal ideological principles.

### *Crisis and 'post-Mečiarism's' turn to Europe*

In summer 1998, Slovakia was on the verge of a deep economic and political crisis. Mečiarism as the basic ideational principle of independent Slovakia's new institutional framework appeared to offer no long-term solutions. Turnout in the September 1998 elections reached 84.4% as Slovak voters mobilised to remove Mečiar from power (although HZDS remained the most popular party) (Bútorá *et al.* 1999). In its place a broad-spectrum coalition government formed that included *inter alia* former communists, market liberals and socially conservative Catholics. The primary task of the government was to undo the legacies of the Mečiar era, while at the same time putting an end to Slovakia's international isolation. The guiding ideology of the post-Mečiar coalition was liberal (in its support for a market democracy) and decidedly pro-Western, placing EU entry in particular at the heart of its agenda. European-style liberalism (with a strong EU focus) thus replaced 'Mečiarism' as the underlying ideological framework of the next four years. Yet beyond affirming a basic liberal commitment to establishing a market democracy in the heart of the EU and NATO,

the new governing coalition frequently split on precise changes to Slovakia's social and economic institutions.

The first Dzurinda government (1998–2002) spent most of its term attempting to reverse many of the effects of democratic backsliding and economic mismanagement, whilst preparing the country for EU accession. Challenges included a severe fiscal imbalance, a plundered and weak banking system, surging external deficits and debt, large future obligations incurred from the 'buy out' of the voucher privatisation programme, and the Visegrad 4 (Czech Republic, Hungary, Poland and Slovakia) region's lowest per capita level of foreign direct investment. Moreover, the government suffered from a lack of international credibility, as many expected that Slovakia would continue to lag behind even after the fall of Mečiar.

The widely-held desire amongst Slovak citizens to join the EU at the same time as their neighbours served as an important focal point around which Dzurinda's diverse and combative governing coalition could converge. Moreover, it proved to be an important glue holding the coalition together (Haughton 2003). The result was a positive response to EU tutelage and adoption of, and adaptation to, the *acquis communautaire* following the Helsinki European Council in December 1999. Indeed, at times Slovakia 'resembled an obedient dog faithfully following its master's instructions' (Malová & Haughton 2006, pp. 326–27). By the 2002 elections, Slovakia had successfully asserted its fundamental commitments to markets and democracy and had even moved to the forefront of the accession race (Vachudova 2005).

Although, as we shall see below, a few of the key figures who drove the neoliberal agenda entered government and positions of influence following the 1998 elections, Slovakia did not take a neoliberal turn at this stage, due not only to the political opportunity structure but also to the fact that what was to become the neoliberal agenda was not then fully formed. A central component of the 1998–2002 government's agenda involved fulfilling entry requirements into Western clubs, leaving little time for diversion. Moreover, while the broad-based government agreed on a reformist policy package, there was no strong drive for neoliberal policies, given that the communist-successor party SDL' held several key economic portfolios. Indeed, those neoliberals who served in the 1998–2002 government, such as Deputy Prime Minister for the Economy Mikloš, were marginal to decision-making in certain key areas and spent some of their time devising policies they would like to see implemented if circumstances allowed. More broadly, it was during this government's term that what might be described as a neoliberal epistemic community (see below) began to sketch out in more detail the policies they wanted to see introduced in Slovakia.

### *2002 and the turn to 'neoliberalism'*

The commitment to Europe and liberalism enabled Dzurinda to pitch a big tent. While unified by this broad commitment, however, Dzurinda's incoherent left–right governing coalition could not agree on ideas for deeper structural change. Dzurinda's tent shrank after the 2002 elections which returned him to the premiership at the head of a more coherent four party centre–right coalition of political parties, thanks in no small part to the collapse in support for SDL'. Without the constraints of an ideologically broad-based coalition and with EU entry virtually assured, the new

government could embark on a series of neoliberal structural reforms that would drastically alter the political and social landscape of the country.

The ability to form a congruent, centre–right government in 2002 was facilitated by the electoral system. Although proportional representation systems are often assumed to help keep welfare systems entrenched (Swank 2002), Slovakia's proportional system played no small part in the post-election outcome. Key to the results was the 5% electoral threshold, which ensured that 18.7% of votes cast were wasted, the largest number since the 1992 elections. Critically, the electoral threshold was not just the nail in the coffin for SDL', it also punished the Slovak National Party (*Slovenská národná strana*, SNS), which had split prior to the election due to a cocktail of personality clashes and power struggles (Haughton 2003). Even given the nationalists' travails, however, the combined total for the SNS and its splinter—the Real Slovak National Party (*Pravá Slovenská národná strana*)—was almost 7%. Had this score been achieved by a unified party, the seats gained for the SNS would have deprived the four parties in the second Dzurinda administration of the ability to form a government with a majority in parliament.

Ideas and epistemic communities played a crucial part in Slovakia's neoliberal turn, as they had elsewhere (Cockett 1994). The shift to a more coherent centre–right government and the removal of the constraints of fulfilling EU accession criteria now enabled numerous neoliberals to gain positions of influence. Many of these people had been sitting on the sidelines as part of the NGO sector since before Slovakia's independence. Others had been studying cutting-edge neoliberal reforms at universities in the United States and Western Europe. A few of them took top ministerial positions while others advised influentially from the NGOs.

Regardless of how they got to power, most had clear ideas about what ailed Slovakia's economy and society and these now provided a basic blueprint for the road ahead. Their ideas began to shape a plan of action after the 2002 elections, through a centre–right coalition consisting of the Slovak Democratic and Christian Union (*Slovenská demokratická a kresťanská únia*, SDKÚ), the KDH, the Party of the Hungarian Coalition (*Strana maďarskej koalície*, SMK), and the Alliance of the New Citizen (*Aliancia nového občana*, ANO). While SDKÚ controlled the key posts at the head of the finance and labour and social affairs ministries, ANO led the economics and healthcare ministries. In contrast, KDH controlled the justice and education portfolios, while the SMK focused mainly on minorities, agriculture, and regional policy.

Minister of Finance Mikloš was at the heart of the neoliberal turn. After a stint as Privatisation Minister prior to Slovakia's independence (1991–92), he spent the Mečiar years out of power<sup>17</sup> and co-founded MESA 10, a free-market think-tank and consultancy firm notable for its steady drumbeat of criticism of the Mečiar government. In 1998–2002, Mikloš served as deputy prime minister for the economy, where he built a small team of advisors aimed at moving forward with reforms—and inevitably became embroiled in frequent clashes with representatives of the leftist

<sup>17</sup>In the waning months of the 1994–98 Mečiar administration, Mikloš briefly took a position on the Board of the National Property Fund.

ruling parties concerning economic policy. From 2002 to 2006 Mikloš held the top finance position, where he surrounded himself with young, Western-trained economists. Although they received encouragement from international finance institutions such as the World Bank, their inspiration came more from the broad economics literature on market-based solutions and the desire to meet the economic challenges facing Slovakia rather than any wish to implement a World Bank model.<sup>18</sup> Indeed, World Bank representatives urged caution in 2003, worrying that the government was going too far, too fast.

Although Mikloš had been associated with the small, liberal Democratic Party (*Demokratická strana*, DS) throughout the 1990s, he became a key figure in Dzurinda's SDKÚ upon its establishment in 2000. Dzurinda recognised Mikloš's expertise and gave him a largely free role to determine economic policy, especially after the 2002 elections.<sup>19</sup> Simply put, there was a deal between the two men: Dzurinda did the politics and Mikloš the economics. At the heart of SDKÚ's appeal in the 2002 election was entry into Western clubs, but achieving these goals created space for a new agenda. In the SDKÚ's 2002 election platform, the party called for lower taxes within the framework of fiscal responsibility, but importantly, the SDKÚ's 2002 programme did not include specifics such as the flat tax. In fact, of the four parties in the 2002–06 cabinet, only the KDH had included such a proposal in its 2002 election manifesto. Nonetheless, KDH's promise was not backed by detailed costings. When Mikloš took over as Finance Minister, although he was convinced of the intellectual merits of lower and simpler taxes, and was keen to act responsibly, he was only willing to implement the flat tax once detailed calculations had been made and he had assured himself the country could afford it.<sup>20</sup>

As Minister of Social Affairs in 2002–05, L'udovít Kaník was only slightly less influential than Mikloš, his close personal friend.<sup>21</sup> Prior to his appointment as minister, Kaník's only previous political appointment was as head of the National Property Fund (1998–2002), where he oversaw the privatisation process. Along with the Finance Ministry, Kaník's ministry formed another hub of reformers in the 2002–06 period.

Policy, however, was not just driven by ideologically committed ministers. Three key groups served to pressure the 2002–06 cabinet on the issue of economic reforms: journalists (many of whom were frustrated with the lack of action during Dzurinda's first cabinet, when many reforms were blocked by the left-wing ruling parties), NGOs, and the economic/business community, particularly those affiliated with banking institutions. In the case of journalists, some became active participants in policy making during the 1998–2006 period. These included Robert Žitnansky, a young, reform-oriented journalist who worked on Mikloš's staff in 1998–99 and Miroslav

<sup>18</sup>Ivan Mikloš, interview with Tim Haughton, Bratislava, 13 December 2006; Martin Bruncko, interview with Tim Haughton, Bratislava, 26 April 2007.

<sup>19</sup>Martin Bruncko, interview with Tim Haughton, Bratislava, 26 April 2007.

<sup>20</sup>Ivan Mikloš, interview with Tim Haughton, Bratislava, 13 December 2006; Martin Bruncko, interview with Tim Haughton, Bratislava, 26 April 2007.

<sup>21</sup>Although Kaník was an SDKÚ appointee, he remained head of the DS until the party merged with the SDKÚ in January 2006. Kaník was given the ministerial post because the DS pulled out of the race during the 2002 election campaign, urging its supporters to back SDKÚ.

Beblavý, a former economic commentator who served as state secretary of the Labour and Social Affairs Ministry in 2002–06. Beblavý, who studied in both the United States and United Kingdom, played a key role in the reform process during 1998–2006, helping to drive reform of the labour code in 2003. Meanwhile Žitnansky, who had returned to journalism in 1999, helped to shape the debate over economic reforms during subsequent years. Another journalist-turned-reformer was Vladimír Tvaroška, an economic writer who became a top advisor to Mikloš in 1999, before moving on to become the state secretary at the Finance Ministry in 2002.

The reforms of 2002–06 would not have been possible without preparations and pressure from NGOs (Fisher 2006, pp. 198–99). Many of the experts who played key roles designing and implementing the reform process while serving as advisors and/or staff at the finance or labour and social affairs ministries were at one time associated with Slovak NGOs. The economic think-tank MESA 10 was especially influential, in part because both Dzurinda and Mikloš had been affiliated with it under the Mečiar regime. During the term of the second Dzurinda cabinet, former and current MESA 10 employees helped to draft several major reforms in areas such as taxation (Mikloš), public administration (Viktor Nižnansky), and healthcare (Peter Pažitný). Meanwhile, pension reform was overseen by Jan Oravec, who had been working on a plan for several years at the Hayek Foundation, which he founded in 1991. Also important in the reform process was the Institute for Economic and Social Reforms (*Inštitút pre ekonomické a sociálne reformy*, INEKO), which was established in 1999 by Eugen Jurzyca (formerly of CPHR) as an NGO aimed at supporting Slovakia's economic development. Beblavý was also associated with INEKO in 1999–2002. On Mikloš's staff, one key player was Martin Bruncko, a young Harvard and Stanford-trained economist who had worked at IVO in 2000–01. IVO and MESA 10 also played an important role through their publications, giving an outlet for analysis of what remained to be done. For example, before serving as healthcare minister in 2002–06, Rudolf Zajac had written on reforms in the sector, together with Pažitný, for IVO and MESA 10 publications.

In regard to the economic/business community, key players included Martin Barto, who served as chief economist at the *Slovenská sporiteľňa* bank, before being appointed to the board of the National Bank of Slovakia (*Národná banka Slovenska*) in December 2004, becoming deputy governor in early 2005. Serving as an advisor to the KDH prior to the 2002 parliamentary elections, Barto was the author of the party's economic platform, which advocated the introduction of a flat tax at a rate of 14%.

Justice policy was very much the preserve of KDH in the 2002–06 government. The key player was the new Justice Minister Lipšic, who had spent time studying in US law schools and was just 29 years old at the time of his appointment. Indeed, the judicial reforms that were introduced during his term bear the mark of Lipšic's time in the United States, leading Kieran Williams (2004) to dub the reforms as the 'Californication of the Slovak Justice System'.

Central to Slovakia's neoliberal turn, therefore, was not just a group of key ministers, but also a group of experts infused with the conviction that policies based on neoliberal principles offered solutions to the challenges facing the country. These strategically placed experts (a number of whom worked as advisors in their respective

ministries) helped to design and implement reform projects. They possessed the professional, linguistic, and management skills necessary to design and implement complex projects. Many had studied abroad and were skilled at absorbing foreign know-how and applying it to specific conditions in Slovakia, while also formulating proposals that would meet procedural requirements acceptable to the state administration. Importantly, these experts were not beholden to any specific interest group, and they were eager to push forward with reforms at all costs (Mathernová & Renčko 2006).

This small group of ministers and advisers were accorded a relatively free hand to generate policy solutions thanks in part to the relationship between the party leaders and the ministers. Just as Dzurinda was willing to defer to Mikloš's expertise on economic matters, so Pavol Rusko was happy to leave reform of the health sector to the ANO-nominated minister Zajac.<sup>22</sup> Moreover, the ability to develop and implement the policies was facilitated by departmental organisation. In the finance ministry, for instance, policy-making was largely the reserve of Mikloš and a small group of hand-picked advisors.<sup>23</sup>

The ability of this epistemic community to implement reforms was also facilitated by two aspects of party politics mentioned in preceding paragraphs, but worthy of emphasis: the structure of party competition and the weakness of the opposition. Firstly, during the Mečiar and post-Mečiar eras, party politics had been dominated by the need to confront the illiberalism of the Mečiar government and bring the country toward integration into Western clubs. The policies of the Mečiar-led government polarised Slovak politics, provoking the opposition into forming an ideologically broad-based government following the 1998 election. This rendered a coherent neoliberal reformist approach impossible until after the 2002 elections. With Mečiar condemned to opposition for a second consecutive term in 2002 and with EU accession nearly in the bag, there was now room for the new ideological agenda pushed by the epistemic community to take centre stage.

Secondly, the ability of the Dzurinda government to push through reforms was helped by the weak and divided parliamentary opposition and the under-institutionalisation of the party system (Malová & Haughton 2006; O'Dwyer & Kovalčík 2007). Slovakia's key left-wing party during the 1990s was SDL'. SDL's participation in Dzurinda's first government during 1998–2002 and Brigita Schmögnerová's position as Finance Minister exacerbated tensions in the party between traditionalists and modernisers. Internal tensions contributed to Fico's departure from the SDL' and the formation of the new *Smer* party in 1999, taking significant public support away from the SDL'. The SDL' was further damaged after the party leader's public call for the dismissal of Schmögnerová (part of the modernist wing) from her post, a move that helped provoke a fracturing of the party in 2002. Both the SDL' and its splinter group had a disastrous showing in the elections later that year, failing to surpass the 5% threshold needed to enter the parliament

<sup>22</sup>Peter Pažitný, interview with Tim Haughton, Bratislava, 23 April 2007.

<sup>23</sup>Martin Bruncko, interview with Tim Haughton, Bratislava, 26 April 2007.

(Haughton 2003). Given the absence of the SDL' from the parliament during the 2002–06 term, the Dzurinda cabinet was faced with opposition from three groups: HZDS, the Communist Party of Slovakia (*Komunistická strana Slovenska*) (which was elected to the parliament for the first time since 1990), and the popular leftist *Smer*. None of those parties created a coherent opposition to the introduction of reforms: Mečiar's HZDS was engaged in a bout of soul-searching and suffered splits, while the Communists offered ill-considered criticisms but little in the way of constructive solutions, a criticism one could also level at Fico's *Smer*. During the course of the 2002–06 period, *Smer* and HZDS often fought among themselves. We should not forget that Fico and Mečiar remained personal antagonists until their shared desire for power led them to overcome their differences following the 2006 elections. Fico positioned himself and his party as the main critic of the Dzurinda government's reform agenda, particularly in the run-up to the 2006 elections (Haughton 2006).<sup>24</sup>

The longevity of Slovakia's neoliberal reforms that were implemented in the 2002–06 period remains to be seen. Nonetheless, by carefully crafting them in such a way as to appeal to a broad base, the experience of the first months of the Fico-led government suggests many of them will probably last longer than some had expected, despite pre-election promises by Fico to the contrary. Following the 2006 elections, only the healthcare reform programme faced reversal, and even in that area, a large slice of the changes implemented in 2002–06 were expected to remain in place. Whilst introducing a 'millionaire's tax' which was expected to affect only the richest 5% of taxpayers in Slovakia, the budget agreed in December 2006 was striking for leaving intact much of the rest of the tax structure introduced by Mikloš.

Also important is that the Fico-led government that took over in 2006 has promised to uphold the fiscal targets set by its predecessor, with the aim of adopting the euro on schedule, in January 2009. That decision was based not on a deep-seated belief in fiscal responsibility on the part of the new cabinet, but rather on the limitations set by international currency traders and other investors, and on the pressure to join the single currency by the business lobby, including key financial backers of Fico's party (Haughton & Malová 2007). Because of Slovakia's negative experiences with Mečiarism in the 1990s, any signs of swaying from the path that was set in 2002–06 are interpreted as a move toward the past, contributing to a decline in investor confidence in the country's economy. Thus, to avoid strong downward pressure on the Slovak crown (which would result in macroeconomic imbalance, including rising inflation), the Fico government has been forced to maintain continuity.

One reason that the reforms of 2002–06 have thus far remained largely intact is that Dzurinda-era changes represent a neoliberal *turn*, not a conversion. Neoliberal control in some areas such as taxation, pensions, labour, and health was often moderated by social liberal control in others. The result is a mix of institutions requiring individual responsibility and others promoting social solidarity. Given Slovakia's remarkable

<sup>24</sup>K. Henderson, 'Europe and the Slovak Parliamentary Election of June 2006', EPERN Election Briefing no. 26, 2006, available at: <http://www.sussex.ac.uk/sei/documents/epern.pdf>, accessed 25 October 2006.

economic performance since 2002, largely due to enormous investments in the automotive and electronics sectors (Slovakia grew at a blistering rate of over 8% in 2006), the neoliberal-social mix may just be sustainable in the longer term.

### *Conclusion*

We have argued that Slovakia's neoliberal turn emerged from several factors, including a crisis of failed policies of the Mečiar-era, the consolidation of a centre-right government, and most importantly collaboration between high-placed political officials and innovative policy advisors. While international pressures certainly played a role as well, they were less important than domestic political factors.

To a large extent, neoliberalism in Slovakia was a response to past failures, as the ideas underlying Mečiarism constituted a direct assault on Slovakia's nascent market and democratic institutions. In an effort to unseat the incumbent government in 1998, Mečiar's opponents clubbed together to form a unified winning coalition that encompassed a broad spectrum of ideological views. Between 1998 and 2002, Slovakia's governing coalition could agree on the need to stabilise the macroeconomy and negotiate in good faith to adopt the EU's *acquis*. Nevertheless, the government lacked a shared ideological vision that would allow it to solve numerous existing institutional crises in such areas as pensions, labour markets, health care and education.

The unexpected success of the centre-right in the 2002 elections changed this. A closely tied network of high placed government officials and policy advisors emerged with both compelling neoliberal explanations of the current crises in Slovakia's diverse institutions and a clear set of blueprints for radical institutional fixes. While neoliberals were not always in complete control and did not win every battle, where they succeeded, they reoriented Slovakia's political economy to reflect neoliberal principles of government retrenchment, market competition and societal responsibility.

The Slovak case, therefore, highlights four components for a neoliberal turn. Firstly, a radical shift in policy is rooted in a perceived sense of crisis and a belief in the inability of existing policy frameworks to solve the economic and social problems facing the country. Secondly, the emergence of an articulate epistemic community which develops policy packages to solve these problems based on neoliberal ideology. Thirdly, to move from intellectual circles to the political domain requires some of these intellectuals to enter high level politics or work for ministries. Fourthly, the ability to drive through the agenda is facilitated by key politicians committed to the agenda, made easier when parties are elite-dominated and the opposition is weak and divided offering little in the way of alternative policy packages. The Slovak case also demonstrates, however, that an appeal based on opposition to neoliberal reforms can be highly successful at subsequent elections, but early indications suggest that once implemented some neoliberal policies prove difficult to reverse.

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