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Background Paper
**The Prospect of
Job Creation in
the WB6 Economies**

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The Prospect of Job Creation in the WB6 Economies¹

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Executive Summary

Why don't improvements in the business environment and deregulation of labour markets always result in the reduction of the unemployment rate? This question is addressed by looking at the relation between the level of regulatory burden for doing business and the labour market, and the unemployment rates in the six Western Balkan countries and territories—Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro, and Serbia. The sole dependent variable is the level of unemployment, which is examined in relation to the selected World Bank “Doing Business” indicators in the form of overall distance to frontier and labour market regulation pertaining to dismissing workers and tax wedge. The score for the WB6 countries is contrasted with the score of six “frontrunners” (those that are at the frontier) and six “backbenchers” (those that are farthest from the frontier). There is an apparent divergence among these three groups in both the level of unemployment and regulatory burden. The WB6 countries managed, during the past five years, to shorten the distance to the frontier, which has yet to result in a significant drop in the unemployment level. One of the possible reasons for this is that business and labour market reforms, though introduced, are not fully or properly implemented. The other is that some non-economic variables, such as the strength of political institutions and the level of corruption, undermine the positive effect of economic reform on the business environment. The paper concludes with suggestions for further research.

Policy summary

- The remaining Western Balkan economies (WB6) that aspire to membership of the European Union profoundly improved business environments and reformed labour markets over the past five years.
- However, these reforms did not result in a significant drop in unemployment in every case.
- Macedonia's and Serbia's unemployment rates are lower than before. Yet, the WB economies' unemployment rates are still among the highest in Europe, with Kosovo and Macedonia at the front.
- Why don't business environment and labour market reforms produce the hoped-for reduction in unemployment? Could it be that political institutions are too extractive, blocking growth and the creation of new jobs?
- As a possible answer, the paper looks at the relations between political institutions—institutions that extract resources from the economy and allocate them to public interest—and unemployment rates in the WB6 economies and in some of the most advanced economies in the world.
- The degree of correlation is straightforward: advanced economies have strong political institutions, steady growth, and low unemployment rates; in contrast, the WB6 economies have weak political institutions, unstable growth, and high unemployment rate.
- Public institutions perform the function of allocating private resources for public purposes: Each euro that is extracted from the economy means one euro less for private investment. But if it is properly invested for public purposes (say, public goods or social security), the allocation is right.
- Unfortunately, advanced economies' political institutions direct public resources into the public needs, while the WB6's public institutions direct public resources into private pockets. Therefore, the opportunity cost of having extractive, rather than inclusive, economic and political institutions is high in the WB6 economies.
- The paper proposes a couple of methods to measure the index of extractivity as a supplement to various indices that measure business environment and labour market reforms.

1. Introduction

There are six remaining EU applicant countries and territories in the Balkans—Albania, Bosnia and Herzegovina, Macedonia, Montenegro, Serbia, and Kosovo¹ -- all of which find themselves in an abject economic state. Growth has practically stalled in these economies since 2008, public finances are in disarray (with both public debt and the budget deficit growing), and the balance of payment is negative. Most importantly, the level of unemployment is high.

To see the depth of the problem, compare the average unemployment rate in the WB6 countries² with the average unemployment rate of the top 6 countries³ according to the World Bank “Doing Business” score for the period 2007-2014 (graph 1.1). We can observe that in 2014 the average WB6 unemployment rate was 22.9%, and the frontrunners’ rate was 4.1%.⁴ How do we account for this difference?

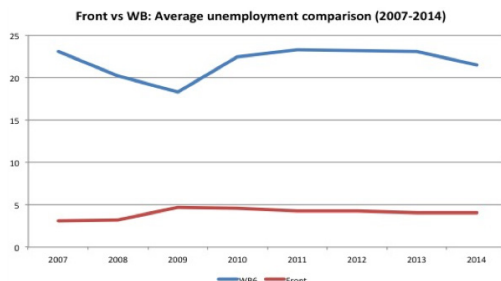


Figure 1.1: Unemployment rate in the Frontrunners and WB6 in 2007-2014

Sources: National Statistical Offices

- 1 Under the UN Resolution 1244, Kosovo is a territory under an international protectorate.
- 2 There are several ways to describe the group of the countries in this report with a joint name (Gligorov, 2012: 16-18). WB6 stands for the remaining six countries in the Western Balkans (the term coined after the 2003 Thessalonica Summit) that aspire to receive EU membership status but are still some way off from full integration with the EU.
- 3 The top 6 WB “Doing Business” countries were deliberately chosen because the “Doing Business” indicators will be used later in the analysis in section 3.
- 4 Unemployment rate (u) is measured as a ratio of the number unemployed (U) to the number of the labour force (L): $u=U/L$.

The standard explanation is that we should look at economic, notably labour market, institutions (Kovtun *et al.* 2014). However, this argument could be joined by an institutional argument under which economic growth, prosperity, and employment essentially depend on the type of political institutions which regulate the economy and the polity (Acemoglu and Robinson, 2012). If institutions are inclusive of a larger population by enabling it to benefit from trade, the economy will prosper. In contrast, if institutions are extractive and exclude a large population from participating, the economy will falter. The claim is that the problem with economic prosperity and job creation in the WB6 countries is primarily connected to the design of political institutions regulating the economic environment rather than to labour market institutions.

The focus of the first part of the article is regulatory burden in the labour market. It is assumed that high unemployment stems from prohibitive costs for doing business, which are mirrored in economically unreasonable rules for doing business (Besley and Burgess, 2004). The WB6 states can improve institutions regulating institutional framework that will positively affect the labour market. These are institutions that relate to starting a business, getting credit, the ease of obtaining construction permits, lowering income tax to create conditions for job creation etc. All this may lower the costs of doing business and increase the demand for workforce. In a modified version of a classical textbook graph that depicts demand for workforce as a function of wages (Ehrenberg and Smith, 1994: 37), here the demand for workers is a declining function of the cost of doing business.

From this it flows that once administrative burden to business is removed and the labour market is made flexible, the unemployment rate will drop. Yet, the data from section 3 show that the WB6 countries have managed to significantly improve their business environment over the past five years, but a reduction in the unemployment level did not follow in every case.

In many cases, a government's actions prevalently affect the level of unemployment. Burdensome regulation, unfriendly administration, unreasonably high taxes, and rigidities of labour market institutions can slow down productivity of the labour market and create a grey economy. Eventually, when regulation becomes more burdensome, entrepreneurs stop

hiring or move to another country. Consequently, workers cannot find jobs. But the implication of this view is that if the government is the problem, then the government must be the solution. The role of the government in the labour market is essential. In “Doing Business”, it can be seen that a high ranking in ease of doing business pertains to the economies that have a strong presence of the state (Basu, 2015: vii). Labour markets with the best performances are those that have both the strongest economic environment *and* strongest political institutions. The labour market, therefore, just like any market, is crucially a consequence of state action, which can improve labour market efficiency (Ehrenberg & Smith, 1994: 7-13).

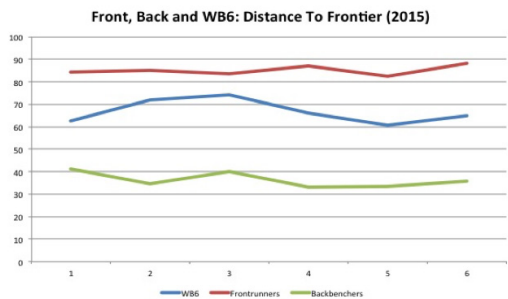
2. The sample and the “Doing Business” indicators

As already mentioned, the WB6 group consists of the six Balkan countries⁵ seeking EU membership—Albania, Bosnia and Herzegovina, Kosovo, Macedonia, Montenegro, and Serbia. There are two control groups with which the WB6 countries are compared. “The frontrunners” consist of the top six countries according to the World Bank⁶ “Doing Business” Index: Singapore, New Zealand, Hong Kong, Denmark, South Korea, and Norway. “The backbenchers” consist of the six economies that are the farthest from the frontier in the WB Doing Business Index. These are Eritrea, Libya, Central African Republic, South Sudan, Congo, and Afghanistan.

Instead of the rankings, the countries’ “Distance to Frontier” (DTF) are compared. The former shows only ordinal rankings and is thus not a solid predictor of how well economies are doing. In contrast, DTF shows the absolute distance of each particular economy from the best performing economy on the whole and in specific areas.⁷ DTF is thus a stronger measure than the ranking, because it is a cardinal rather than ordinal measure; it shows the exact distance of the economy in question relative to the frontrunners. The best DTF score is 100, but the first-ranked country does not necessarily have to be precisely at 100. For example, Singapore, which ranked first in 2015, scored 88.27.

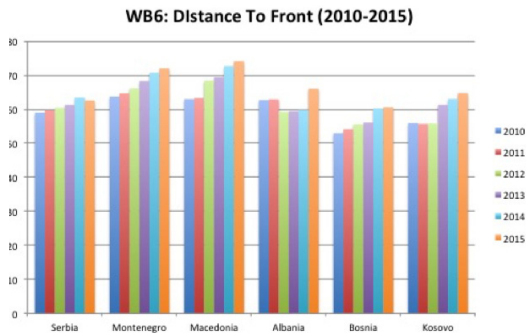
- 5 There are several ways to describe the group of the six countries under analysis in this report by a joint name (Gligorov, 2012: 16-18). The countries under scrutiny are known by two names: the Western Balkan countries and South-east Europe. The former name usually denotes the security risk that connects all six countries. Southeast Europe sometimes is used to denote Romania and Bulgaria, while the term Balkan includes Croatia, Turkey, and Greece.
- 6 Please do not confuse this WB (which stands for World Bank) with the WB6 (which stands for Western Balkans countries).
- 7 These are starting a business, dealing with construction permits, getting electricity, registering property, getting credit, protecting minority investment, paying taxes, trading across borders, enforcing contracts, and resolving insolvency.

Graph 3 shows the comparison among the WB6's, frontrunners', and backbenchers' scores for 2015. We can observe that the WB6 countries are doing worse than the frontrunners, but much better than the backbenchers.



Graph 1.3: The frontrunners, the backrunners and the WB6 countries—average distance to frontier in 2015.
Source: Doing Business study.

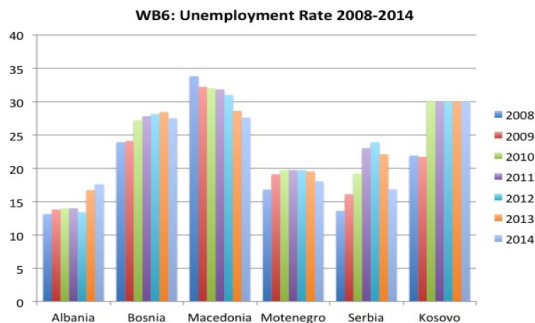
When we look into the period 2010-2015, we see that all WB6 economies have constantly been improving their business environments and have come closer to the front (graph 1.4).



Graph 1.4: The progress in improving business climate in the WB6, 2010-2014.
Source: Doing Business study.

This progress has been noted and praised by relevant international organisations that monitor the economic situation in these countries. For example, the IMF special report on 15 years of transition in the Western Balkans underscores the progress in the Doing Business Index for the

selected WB6 (Murgasova, 2015). However, data show mixed results when it comes to unemployment. Compared to 2008, the unemployment rate in 2014 was reduced in Albania and Macedonia, but went up and down in Bosnia and Herzegovina, Montenegro, and Serbia⁸, and was unclear in Kosovo⁹ (graph 1.5).



Graph 1.5: Unemployment rate in WB6 2008-2014.

Source: National Statistical Offices

How can we explain this? If the business environment is improved, we should observe a steady decline in the unemployment rate which should be a result of new jobs. Yet, there is an apparent disharmony between these two indicators in some cases. A two-sided answer is offered to this puzzle. The WB6 economies, despite the fact that they reduced administrative obstacles to business, still maintain a huge obstacle in a form of extractive economic and political institutions. There are some aspects of the business environment that are yet to be improved. These mainly relate to the cost of tax policy and some labour market institutions. Such institutions extract the resources from the economy, which leaves less available funds for economic development, growth, and new jobs. Secondly, political institutions are also extractive because they make room for misuse and diversion of public funds. If both sorts of extractive institutions are efficient (in a negative sense), they will

- 8 Statistically, the unemployment rate in Serbia fell significantly in 2014. But many doubt that it was due to the administrative broadening of scope of those who are treated as unemployed. In any event, such a significant drop in unemployment would have to be preceded by real economic growth and accompanying structural changes in the economy, which did not happen in the past several years (Arsić *et al*, 2015: p. 9)
- 9 In 2013, Kosovo changed the methodology of measuring unemployment.

leave less funds for both private and public investment. Other public goods that are critical for economic growth (efficient administration, judiciary) will not be provided, and, as a result, there will be no growth and no new jobs.

3. Labour market rigidities

Unemployment level is a product of two groups of determinants: direct and indirect. Direct relate to labour market rigidities. Labour market institutional determinants can generally be divided into three groups (Kovtun *et al.* 2014):

- a. institutional rigidities in labour markets: unemployment and unemployment benefits; employment protection legislation; wage bargaining structure;
- b. labour costs: unit labor costs; wage rigidities; minimum wages; and tax wedge;
- c. structural hurdles from unfinished transition: capital and labour inflows; remittances.

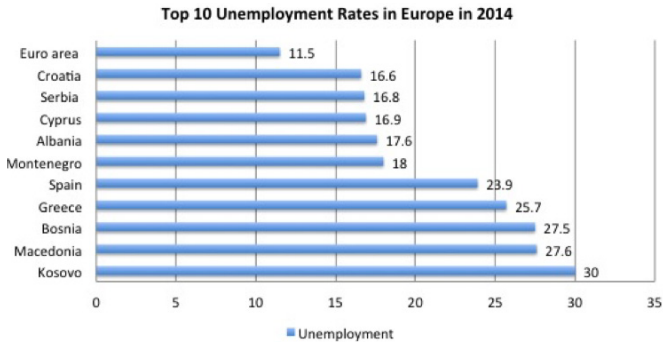
As said, WB6 countries improved their business environments significantly over the past five years as documented by the Doing Business study. The general distance to frontier (graph 1.4) has been shortened. In other sub-topics—getting credit, dealing with construction permits, registering property, paying taxes etc.—the situation is no different: progress is visible in all areas.¹⁰

What should be a natural outcome of such a development of business environment reform? Since demand for labour depends on the cost of doing business, the reform of the business environment is supposed to boost job creation and reduce unemployment. This is what happened in Macedonia after mid-2000.

During the 1990s, Macedonia was one of the most underdeveloped labour markets in the region (Micevska, 2008) with the highest unemployment rate in Europe, hovering constantly over 30%. Yet, in the second part of the following decade, the Macedonian Government pushed for the most vigorous labour market reform in the region by reducing labour costs and

10 The data and scores for other areas can be found at <http://www.doingbusiness.org>.

removing administrative obstacles for doing business, which resulted in both a decline in the level of unemployment and also an increase in the workforce (IMF, 2014m: 6). The IMF praised labour market reforms in Macedonia in the 2014 and 2015 staff reports. Yet, Macedonia’s unemployment rate is still among the highest in Europe. In 2014, three out of six WB economies (Macedonia, Kosovo, and Bosnia and Herzegovina) headed the top 10 highest unemployment rate ranking in Europe. The remaining three Balkan economies (Albania, Montenegro and Serbia) were among the top 10 (graph 3.1).



Graph 3.1: Top 10 unemployment rates in Europe in 2014.
Source: National statistics offices

What we saw in Macedonia, we cannot detect in other WB6 countries. It is easier to do business in any WB6 country than before, yet we do not observe the reduction of unemployment rates in all WB6 countries.

The only section of the Doing Business Index which is not quantified is the part on labour market regulation. These regulations can too impose prohibitive costs to hiring. Part of such prohibitive costs is fiscal in nature. If the fiscal burden for each worker is unreasonably high, both employers and workers will agree to go to the grey zone.

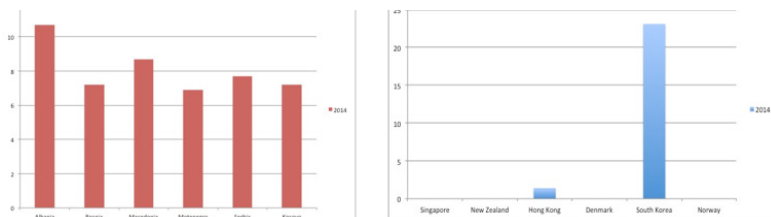
The question that each worker and employer must ask themselves is—is it worthwhile to engage in legal income-generating activity in these countries compared to the identical illegal activity? In the WB6 countries, the overall fiscal burden per worker is unreasonably high, notably for low-wage earners.

This gives them a disincentive to engage in a legal income-generating activity. In other words, the opportunity cost of formal employment in the WB6 countries is generally high.

When an illegal worker has to switch to formal activity, it will mean that both worker and employer will have to contribute to pension, health, and unemployment insurance funds. Workers will also have to pay income tax on their gross incomes. When engaged in illegal activity, workers are formally unemployed, meaning that might have some social benefits, which is a product of income testing. If they formalise their positions, they lose such benefits.

Workers face high opportunity costs of registering as legal employees, because when they do, they lose health benefits that they receive as unemployed. For example, under the Serbian social protection scheme, unemployed people are eligible for free health insurance, for which they have to pay once they are formally employed.

The cost of firing workers remains high in the WB6. Graphs 3.2 and 3.3 show the average severance pay for workers who have been with the firm 1, 5 and 10 years, respectively. The difference is apparent. Among the frontrunners, only South Korea mandates significant severance packages in case of layoffs (graph 3.3). In contrast, all WB6 countries mandate significant severance packages (graph 3.2). Obviously, it is more costly in the WB6 countries to fire workers than in the frontrunners. This adversely affects the employer's decision to hire: if employers know it is difficult to fire workers, they will not hire them in the first place to avoid the high cost of firing.

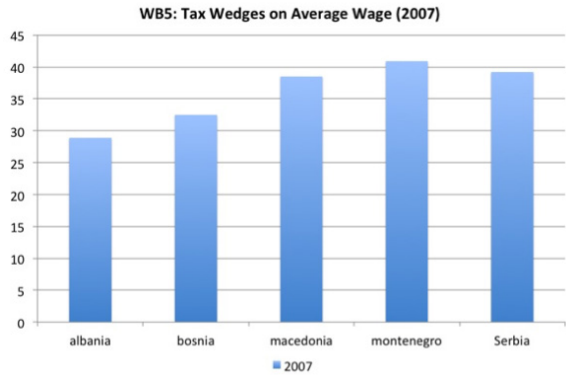


Graphs 3.2 and 3.3: Severance packages in the WB6 and the frontrunners in 2014

Source: WB Doing Business study

The Serbian case shows that the formal economy indeed protects workers much better than the informal economy. Data from April 2008 to October 2009 show that the employed population in the informal sector decreased by 20%, while employment in the Serbian public sector decreased by only 5% (Koettl, 2010: 7). The reason for this is that firing workers in the formal sector costs more than in the informal sector due to worker protection legislation. While the informal sector adjusts by shedding labour, the formal sector adjusts by reducing working hours (Koettl, *Ibid.*).

Tax systems in WB6 countries are typically designed against employment. Tax wedge¹¹, the combined effect of taxes and social security contributions on low-income earners, is large in each Balkan country (graph 3.4), and presents one of the major disadvantages concerning labour cost. In a word, high costs of employment deter businesses from formalisation, and keeps the formal employment level down (Arandarenko and Vukojić, 2008).



Graph 3.5: Tax wedges in the WB5 in 2007.
Source: Arandarenko and Vukojić (2008)

However, tax wedges are not less in the EU -- on the contrary. An analysis showed that the average tax wedge for the EU-15 (38%) is higher than the

11 Tax wedge is the difference between before-tax and after-tax wage. It tells us how much the government extracts by taxing the labour force and discourages employment. According to the OECD methodology, it is usually expressed as a percentage of labour cost for a single person at a 100% of average earning.

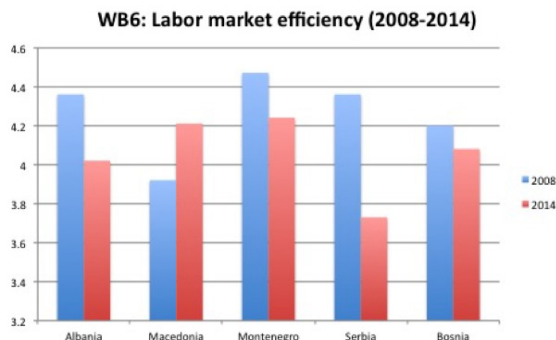
tax wedge for 12 new member states (34%) in 2008. (Dolenc and Laporšek, 2010: p. 349).¹² Why don't high labour costs in the form of a tax wedge translate into such a high unemployment level in the EU countries?

Basically, it could be said that labour market institutions in the WB6 are less efficient than their equivalents in the frontrunners. A more recent proxy for this obstacle can be found in the World Economic Forum (WEF) indicators on effect of taxation on incentives to work. People are asked if taxes reduce the incentive to work. In 2014, the average score for the frontrunners was 4.48, and for the WB6 was 3.62.

The Doing Business study does not measure and compare labour market efficiency, which is why labour market efficiency scores constructed by the World Economic Forum are used in the analysis. If we compare the WB6's score in this area to the frontrunners's score, we obtain a clear difference among the two groups: the frontrunners have more efficient labour markets, meaning that they allocate workforce for the most effective uses and give the workforce incentives to be most productive.

The WEF Labour Market Efficiency Index measures relevant opinions on flexibility and efficient use of talents in labour markets. Flexibility is critical for the argument of this paper, because it considers labour-employer relations, wage determination, hiring and firing practices, redundancy costs, and effects of taxation on incentive to work. Graph 3.7 compares labour market efficiency from 2008 with labour market efficiency from 2014. We can observe that, except for Macedonia where the labour market significantly improved, in Albania, Montenegro, Serbia and Bosnia and Herzegovina, the labour market efficiency worsened.

12 In both cases, tax wedge was calculated based on the OECD methodology for an average worker who is single and without children with 67% of average wage (OECD, 2014).



Graph 3.6: Labour market efficiency in the WB6, 2008 and 2014.

Source: World Economic Forum Indicators

Labour markets in the WB6 appear to be more closed and more protective of the existing workforce at the expense of the potential workforce, thereby excluding a significant part of the population from work. Thus, the 2015 IMF report concludes that even with lots of progress that has been made in the WB6 countries to lighten the regulatory burden to doing business, “yet it is still time-consuming for businesses to trade, pay taxes, or resolve insolvency, and costly to start a business or enforce contracts. [...] Overall, rigid business environments often continue to hamper foreign investment, though there are isolated success stories” (Murgasova *et al.*, 2015: 23). So, maybe the WB6 countries, on the whole, simply did not try hard enough? When every country does the same job as Macedonia, new jobs will mushroom in the Western Balkans.

This could be a tentative conclusion. Yet is possible to offer another view to the problem. One could claim that the independent variable that trumps labour market regulation and structural reforms relates to governance and public institutions. The following sections consider this argument and back it up with empirical support and anecdotal evidence.

4. Public institutions – corruption and misdirection of public funds

Let us go back to Macedonia. In the 2014 IMF staff report, the IMF stated that “labour market institutional factors (labour market flexibility, social assistance, and labour taxation) appear in line with those of EU new member states and are therefore not likely to be the main explanatory factor of the poor labour market outcomes in FYR Macedonia” (IMF, 2014m: p. 15) Some of the problems were attributed to skill mismatch between supply and demand for labour. At the same time, the report finds that the banking sector is fairly reluctant to extend loans to businesses. In other words, the report argues that the demand for loans exists. The problem is with the supply side:

Risk aversion by banks appears to be the most critical supply-side factor. In comparison with other countries, most balance sheet characteristics are found to be generally insignificant to explain changes in credit standards. In contrast, however, for each category of loans, banks’ expectations regarding overall economic activity turns out to be the most significant explanatory factor behind the tightening of credit standards. These results are fully consistent with the observation that banks are very liquid and well capitalized, but may be excessively risk averse” (IMF, 2014m: p. 20)

A similar conclusion was offered in the World Bank’s Regular Economic Report that reviews East European economies. It states that by mid-2014 average non-performing loans (NPLs) for the WB6 countries increased to 16.7% of total loans. The level of NPLs in Serbia in 2014 was even higher than during the crisis, going beyond 30%. NPLs radically retarded credit growth in these countries, as may be seen from Figures 41 and 42 (WB,

2015: 33). Bank managers on the ground obviously do not assess the risk of lending in the same way as do the people preparing the Doing Business report in which the WB6 do a good job in removing administrative obstacles and reforming labour market.

Figure 41: Non-performing Loans

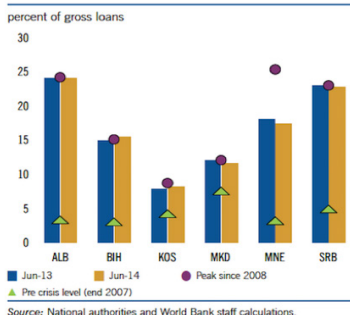
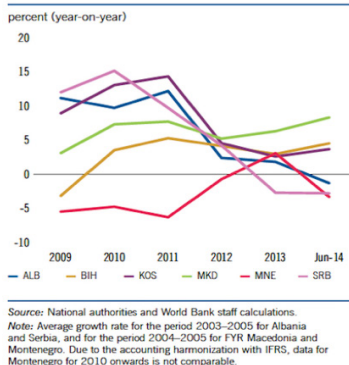


Figure 42: Credit Growth Rates



Why do banks believe the WB6 are risky countries? Should not business environment reforms do the job and convince investors and bankers that it pays off to invest in the WB6 markets? Macedonia again offers an instructive example. While reforming labour market, Macedonia's path towards the EU seems to have strayed to an impasse for other reasons. In 2014, the European Commission's Progress Report supported the Macedonian wish to open negotiations, but pointed at an increasing politicisation of public administration, judiciary, media, and the electoral process. The report states that:

Awareness-raising measures and greater political commitment are urgently needed. Claims of selective enforcement and political influence in this area persist, and a more proactive stance is needed to eliminate these serious concerns. Public trust in anti-corruption bodies remains low. As is the case elsewhere in the region, corruption remains prevalent in many areas and continues to be a serious problem (EC, 2014: p. 11)

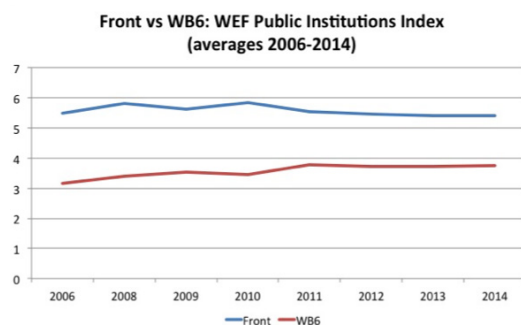
This underscores the problem of political institutions, which determine how welfare is distributed in an economy. The nature of the institutions plays a

decisive role in economic wealth. Both political and economic institutions are extractive in that they extract resources from the majority of the population in order to benefit the few with strong political and economic ties to the government and public administration.

Political institutions are critical for economic growth in the context of an economy that has a sizable government, large public sector, and fiscal policy. In such a context, political institutions determine how public funds are created and spent. If they are defective, resources taken from the private sector will be large (in the form of taxes) and funds will be misdirected: instead of being allocated to their most efficient use (public investments, production of public goods, correction of externalities, elimination of moral hazard, or social protection of the badly-off), they will end up in private pockets, and welfare and job creation will not take place. The WB6 may have come closer to the frontrunners *vis-à-vis* labour market regulations, but they are far away from them concerning the strength of political institutions.

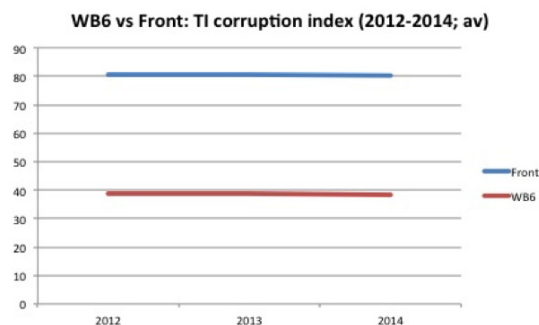
These claims can be supported by empirical support and anecdotal evidence. Let me first compare the World Economic Forum (WEF) indices on public institutions to the Doing Business scores. The WEF Index measures the strength of public institutions by looking at property rights, intellectual property protection, diversion of public funds, public trust in politicians, irregular payment and bribes, judicial independence, favouritism in decision of government officials, wastefulness of government regulation, transparency of government policymaking etc (WEF, 2015: 536-7). All this is measured by a general index named Public Institutions. Since its components are essentially political, this index is used as a proxy to determine the extractives of political institutions in an economy.

We observe a decline in the strength of public institutions in the WB6 (graph 4.1), a higher level of the Corruption Perception Index in the WB6 than in the frontrunners (graph 4.2), and the escalation of corruption among the WB6 in 2012-2014 (graph 4.3).



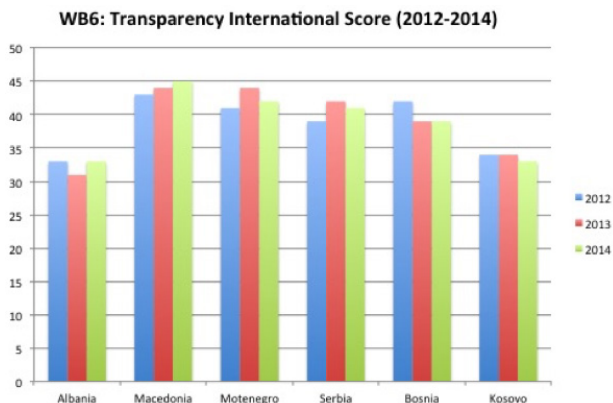
Graph 4.1: Strength of public institutions: The WB6 vs. Frontrunners (averages for 2006-2014)

Source: World Economic Forum



Graph 4.2: Transparency International Corruption Index for the WB6 and the frontrunners.

Source: Transparency International



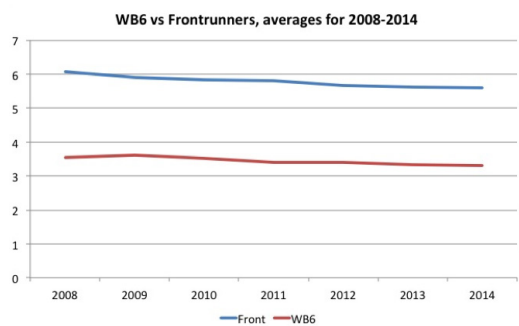
Graph 4.3: TI for the WB6 in 2012-2014

Source: Transparency International

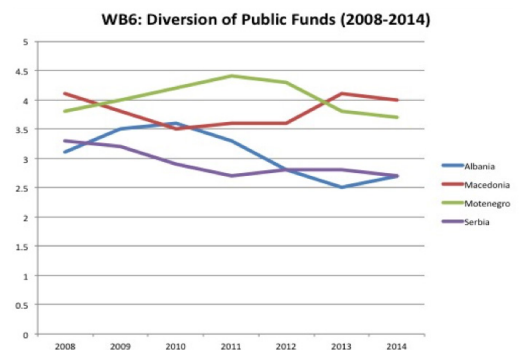
Take high tax rates and taxes wedges discussed in section 3 as an example. The reason for such a high fiscal burden is that the political elite that currently occupies the office and public sector has to financially support itself. Most Balkan countries (except Albania) have relatively large government spending as a percentage of GDP, the bulk of which accounts for public sector wages and pensions. This spending is financed by taxes and social security contributions. If these did not exist, the taxes could most likely go down.

However, the WB6 countries are not the only ones having high tax rates. Some EU and Scandinavian countries have them too (Dolenc and Leporšek, 2010). Yet, these countries have highly professional public administration (expressed in a low corruption level) and rather strong social security services, meaning that a large amount of the taxed resources is spent in the right way—it is used for the public rather than for private purposes. Therefore, the reason why in these countries the money is spent in the right way is that these countries have strong public institutions, which block the misuse of public resources for private purposes. Have a look at graphs 4.4 and 4.5. First, we can observe that, in line with results obtained for public institutions, the score for public fund diversion is much lower in the WB6 countries than in the frontrunners (graph 4.4). However, graph 4.5 shows

that the score for the four countries¹³ from the Western Balkans in diversion of public funds deteriorated since 2008.



Graph 4.4: Diversion of public funds. Average values for WB6 and Frontrunners in 2008-2014.
Source: World Economic Forum



Graph 4.5: Diversion of public funds 2008-2014
Source: World Economic Forum

The general claim is this: weak political institutions are a natural outcome of the preference for non-transparent uses of public funds. When political institutions are weak, the control of public funds is absent. Each euro that is misused through weak public institutions is one euro less for private or

13 Bosnia was omitted due to the unreliability of data. The WEF report excluded Bosnia and Herzegovina from survey in 2013.

public investment, and some social welfare goals (Tanzi, 2011: 231). This results in lower growth and fewer jobs.

5. Suggestions for Further Research

The major claim of this paper is that extractive political institutions are among the major reasons retarding growth, new jobs, and prosperity in the Balkans economies. The argument for such a claim is based on the fact that each euro that is taken away from the private sector and misused by public administrations and political institutions is not invested in an economy in a form of public or private investment. In order to measure the damage such institutions do to the economy, it would be appropriate to construct an index with which to measure the extractivity of political institutions.

My suggestion for further policy research is thus twofold:

(1) Instead of measuring only economic and labour market institution reforms to reach conclusions about jobs and prosperity, we should also have some definite measurement of the opportunity cost of having extractive economic and political institutions. We could calculate an approximate waste of public funds in terms of wasted euros. Allow me to give some examples:

MACEDONIA. In 2008, The Macedonian government launched the Skopje 2014 project.¹⁴ The major problem with the project is its rising costs and uncompetitive bidding procedures that made room for procurement fraud. When it was launched in 2008, it was projected to cost about €80 million. In 2013, it went up to €207 million. The mayor of the Centre initiated in 2013 an audit that found €58 million transferred from the central budget to the municipality's budget was unaccounted for (Dimishkovska, 2014: 424). Perhaps we could say that the wasted funds from such non-transparent practices were €58 million, which is €58 million less for public or private investment.

14 "Skopje 2014" is a project financed by the Macedonian Government intended to provide to the Macedonian capital a more historical look and classical architecture. The plan was to build around 40 museums, buildings and monuments that would turn Skopje's downtown into an ancient city. The project has been trashed as historical kitsch and criticised for corruption.

ALBANIA. In 2014, Ardian Fullani, governor of the Albanian Central Bank, was arrested along with 19 other officials for stealing about \$6.6 million from the bank vaults. The cost of corruption in 2014 was, measured for this case only, \$6.6 million.

BOSNIA. In 2014, the Bosnian police arrested Kemal Čaušević, the former head of the Bosnian Indirect Tax Office. Čaušević was charged (along with 53 other persons) with making possible illegal tax holidays in 2004-2011 for a number of Bosnian politicians and tycoons. The total amount of uncollected tax revenues is estimated at 2 million convertible Bosnian marks, or €1 million.

MONTENEGRO. In May 2015, Montenegrin State Revision Institution issued a report stating that several state institutions (Concession Committee, several ministries, Direction for Woods, Direction for Water etc) systematically failed to collect concession fees in the amount of €19 million in 2009-2013.

SERBIA. In 2013, the Ministry of Economy discovered that the Development Fund, a state agency tasked with helping local economies with cheap loans, has non-performing loans in the amount of €1 billion. In 2012, four Serbian commercial banks filed for bankruptcy as a result of non-performing loans in the amount of €1 billion. Again, the damage to the economy is €1 billion per case. The cumulative negative effect of these two cases to the Serbian economy is hence €2 billion.

(2) We could also construct an index with which to measure the independence of supervisory institutions such as the budgetary revision office, the commissioner for information of public importance and personal data protection, the public procurement office, anticorruption agency, antimonopoly agency, body to control part financing etc.¹⁵ Such indices should be of paramount importance in assessing why some economies, despite doing a good job in reforming some market institutions, still cannot get off the ground. The expected low values in these indices would surely correlate with poor economic performance of standard macroeconomic indicators.

15 Something similar exists as a report produced by Transparency International, titled “Anticorruption Helpdesk”.

Proposed measurement can never be precise. But if we never take into account the extractive nature of political institutions, we will never be able to explain why some economies that did a good job in reforming economic institutions cannot create growth and jobs.

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The Balkans in Europe Policy Advisory Group (BiEPAG) is a co-operation initiative of the European Fund for the Balkans (EFB) and Centre for the Southeast European Studies of the University of Graz (CSEES) with the aim to promote the European integration of the Western Balkans and the consolidation of democratic, open countries in the region. BiEPAG is composed by prominent policy researchers from the Western Balkans and wider Europe that have established themselves for their knowledge and understanding of the Western Balkans and the processes that shape the region. Current members of the BiEPAG are: Florian Bieber, Dimitar Bechev, Milica Delević, Dane Taleski, Dejan Jović, Marko Kmezić, Leon Malazogu, Corina Stratulat, Marika Djolai, Jovana Marović, Nikolaos Tzifakis, Natasha Wunsch, Theresia Töglhofer, Mirna Vlašić Feketija, Milan Nič and Vedran Džihic.

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The European Fund for the Balkans is a joint initiative of European foundations that envisions, runs and supports initiatives aimed at strengthening democracy, fostering European integration and affirming the role of the Western Balkans in addressing Europe's emerging challenges.

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Their synergetic effects are focussed on continuous “Europeanisation” of the policies and practices of the Western Balkans countries on their way to EU accession, through merging of the region's social capacity building with policy platform development, and a culture of regional cooperation.

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The Centre for Southeast European Studies was set up in November 2008 following the establishment of Southeast Europe as a strategic priority at the University of Graz in 2000. The Centre is an interdisciplinary and cross-faculty institution for research and education, established with the goal to provide space for the rich teaching and research activities at the university on and with Southeast Europe and to promote interdisciplinary collaboration. Since its establishment, the centre also aimed to provide information and documentation and to be a point of contact for media and the public interested in Southeast Europe, in terms of political, legal, economic and cultural developments. An interdisciplinary team of lawyers, historians, and political scientists working at the Centre has contributed to research on Southeast Europe, through numerous articles, monographs and other publications. In addition, the centre regularly organizes international conferences and workshops to promote cutting edge research on Southeast Europe.

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An abstract geometric design featuring four triangles that meet at a central point, creating a star-like pattern. The triangles are colored light blue, orange, dark blue, and a very light blue. The background is white.

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