



Weekly Briefing

Serbia social briefing:

New fiscal policy of the Serbian government and brain drain

IIPE


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Abstract

In order to cover the large budget deficit, the Serbian government decided to introduce a few new measures. Among them is newly introduced taxation of self-employed professionals - freelancers. And while taxation won't be problematic by itself, the problem arose when Ministry of Finance Tax Administration call upon freelancers to pay their taxes for last 5 years. Not surprisingly, freelancers were deeply affected by this announcement considering taxes to be too high and unfair. In order to make Serbian government to reconsider its decision, they established the Association of Internet Workers.

The roots of the problem

During both her mandates, the Prime Minister of Serbia, Ms. Ana Brnabić, prioritized the development of information technologies and the digitalization of administration and economy. Not only the Prime Minister, but many government officials emphasized the importance of the above mentioned as the way to keep young people in Serbia, to prevent the brain drain, and to establish so-called brain circulation. Considering that, the mid-October announcement of the Ministry of Finance Tax Administration on taxation of freelancers was perceived as a great shock. This shock was even greater knowing that announcement was made in an unusual way – posted on the Tax Administration's website and Facebook page. Following the announcement, freelancers are obliged to pay a tax, health and pension benefits in the amount of 46% of total of their earnings for the previous five years! It is speculated that the reason for such a draconian measure is part of the Ministry of Finance intention to (at least) partially cover the all-time high budget deficit of this fiscal year. Namely, the budget adjustment for 2020 envisages a deficit of the Republic budget of 483 billion Serbian Dinars (8.8% of GDP, approximately 4,1 billion Euros).

The general sentiment among the youth

In general, Serbian youth feels disenfranchised from the system and deprived of any economic benefits. They are struggling with a lack of job opportunities, and small paychecks even if they are lucky enough to find a job. When comes to the political arena, they are

voiceless. Political parties are unable to address the needs of young people. Although some political parties have youth wings, they represent just a machine for replicating already existing elites, rather than a real communication channel. On the other hand, the political party of the United Retired Citizens (srb. *PUPS – Partija ujedinjenih penzionera Srbije*) has been a member of the ruling coalition for more than a decade. This implicitly shows that the voices of young people are not important and that they cannot influence the political process and decide their own destiny. It is for these reasons that young people have recognized the internet as a space where they can freely express themselves and to earn money in accordance with their education and qualifications. Earning in this way, young people can stay in Serbia close to their family and friends and have a relatively decent life. They also believe that in this way, by providing foreign currency inflow to the country, they are contributing to their native country's economy. For these reasons, they perceived the newly announced measures of the Ministry of Finance as a betrayal. Not only that the government is unable to address their needs (such as lack of job opportunity, high cost housing etc.) but now is stripping off their hard-earned money. Situation became more disturbing with campaign launched in the pro-government media and presenting freelancers as outlaws and thieves who want to steal the money from their homeland. In reality, the situation is quite different, freelancers are willing to pay taxes but at the reasonable rate. Also, they demand associated social benefits, such as pension contribution and health insurance. Unfortunately, it seems that, at this point, the government isn't ready to provide that, not even to consider the job of a freelancer as a legitimate work experience.

In fact the biggest point of contention between freelancers and the government is the retroactive effect of this law. From the freelancers' point of view, retroactive provision is very controversial from both legal and ethical point of view. They ask is it legal to tax earnings for the last five years while the government is not able (or unwilling) to provide the privileges that are associated with this tax. According to rough estimations, the average freelancer would have to pay around 5,000 Euros per year in a single installment. Retroactive clause of the law would cumulate the total amount of debt to about 15,000 to 20,000 Euros per capita, depending on the earnings of an individual freelancer. Young people in Serbia simply do not have that amount of money. So once again, they hypothetically ask is it moral to ask for such a large amount of money (in supposedly one installment) when it is known that the average salary in Serbia is around 500 Euros per month. Consequently, young people conclude that the Government's desire is not to regulate their employment status but "to patch the budget holes" created by the election campaign during the COVID - 19 pandemic. In accordance with youthful spirit, they refuse to be a victim of politicians' profligate spending.

Possible social and political effects

Unlike previous protests of young people in Serbia, which often turn into anarchic outbursts of anger, this protest is much quieter and more organized. At the beginning of November, an association of online workers (srb.*URNI – Udruženje radnika na internetu*) was established with the aim of gathering, informing, and uniting online workers in order to provide legal counseling and protect their rights. Thus far, the association has made demands to suspend all ongoing tax proceedings and start negotiations with the Government.

In the bigger picture, these events can trigger much more complex social and political events. Estimates say that over 100,000 people work in the freelance sector. This is a significant pool of votes. Moreover, these are the people that usually abstain from voting. Indirectly, if you count family members, the number of votes can be even higher which can seriously affect already announced general elections that will likely take place in April 2022. These are young energetic and enthusiastic people who are unaffected by propaganda from the mainstream and pro-government media. As they are computer savvy and very skillful with social media they can easily hinder Government campaign on the internet or launch a campaign of their own. Past experiences have shown that Serbian governments are wary of protests organized by young people and students. Leaving these issues unaddressed, or if the Government decides to stubbornly remain in its positions could lead to social tensions.

The second scenario is much more dangerous for Serbia and it involves the mass emigration of young people from the country. In order to avoid draconian tax rates in Serbia, young people could move to countries in the region such as North Macedonia and Bosnia and Herzegovina. If you combine this with existing emigration to Western European countries demographic consequences for Serbia could be catastrophic. The economy would suffer even further because the foreign exchange inflows would stop and consumption would be reduced.

To an outsider, these two scenarios probably seem too extreme or too pessimistic, but disenfranchisement and dissatisfaction with the unsuccessful transition have been simmering in the entire Serbian society for more than twenty years, and it is beyond the current Government. Consequently, any socially sensitive event can represent a straw that broke the camel's back. In other words, apathy can very easily be transformed into an outburst of rage, especially because this problem concerns energetic young people.

It is very likely that the policymakers are aware of this situation as well. Therefore, we also anticipate a third possible scenario which is pushing the problem under the carpet. In this case the Government will maintain its decision in order to preserve its authority. On the other

hand, it won't enforce it in order to preserve social peace, or rather social lethargy. This lethargy comes useful to the Government in maintaining the status quo in the Serbian society. Tolerating the silent tax evasion will enable the Government to maintain social peace, but not only that. It can also represent the ace up in government's sleeve by which it can contain any future opposition activity that may arise from the freelancers movement. For example, tax evasion charge that is filed but not enforced can be used as an instrument of pressure on an individual.

Conclusion

During the COVID-19 crisis in March 2020 Serbian Government made indiscriminate public spending to secure election victory. That created an all-time high budget deficit. In order to contain that deficit, the Government introduced 46% taxes on freelancers. In this way, the Government would do the exact opposite of what it is claiming. It will stimulate the brain drain instead of curbing it. If a fair solution is not found, three scenarios may occur. Firstly, votes of aggravated youth can be a major factor in the next elections, and could introduce political change in Serbia. Secondly, mass emigration could continue which would lead to the catastrophic demographic outlook for Serbia. Thirdly, the Government would probably tolerate tax evasion in order to maintain social peace or even to obtain some political leverage.