CASE STUDY

INSTITUTE OF ECONOMICS AND SOCIAL STUDIES

Slovakia’s Braintrust

Fueling Central Europe’s Cross-Partisan Market Liberalization
INTRODUCTION

Nestled in central Europe, Slovakia is often overshadowed by its larger neighbors. Yet for the past few decades the former Soviet satellite state has performed remarkably well. With a population of approximately 5.6 million, the country is something of an industrial powerhouse, leading the world in per capita automobile manufacturing with over 1 million automobiles produced each year. Also, the nation is essentially self-sufficient in energy sourcing, keeping the lights on for over 5 million annual tourists.

Amid the scenic landscapes, mountains, caves, medieval castles, and resorts, Slovaks have experienced much change since peaceably dividing Czechoslovakia to become independent. The early 2000s saw a series of liberal economic forms that ushered in a period of rapid economic expansion, attaining growth rates up to 10.8% and earning the nickname of the “Tantra Tiger.” However, the economic reforms – such as a flat tax, Chilean-style pension policy, and a restructured banking sector – have not been universally welcomed.

Reforms came at the cost of many popular social programs, which resulted in a populist backlash that brought a leftist government to power, which has dominated politics for the past three election terms and stifled further liberalization. The recent European immigration crisis appealed to Slovaks’ deep-seated nationalist impulses and led to a strong cultural reaction, despite immigrants not actually settling in Slovakia. This sentiment led to a neo-Nazi being elected to Parliament for the first time.

Once the fruits of economic liberalization have been tasted, however, a society’s appetite for market-based reform often returns. A more diverse government was elected in 2016, bringing with it certain pro-business ideas and a general shift in atmosphere. Even members of the leftist party are opening to reform, albeit due to appeals to their technocratic orientation. The Institute of Economic and Social Studies (INESS) aims to seize the opportunity to apply their research and advocacy toward substantial policy change.
The Institute of Economics and Social Studies, “INESS” for short, is a full-service policy shop located in Bratislava, the capital city of Slovakia. It exists to provide a voice for sound market policies and raise awareness on the impact of state intervention, said Richard Durana, the Institute’s director. Policy papers and books, public events, media appearances, speaking panels, and expert opinion are its main products.

INESS was founded by three friends as a practical outgrowth of years of conversations about policy, philosophy, economics, and society. The organization made the transition from fraternal to formal, Durana explained, when “a fourth friend came and asked us if we wanted to quit our jobs and try to set up a think tank.” After months of thought, Durana, along with Radovan Durana (Richard’s brother) and Juraj Karpis, launched INESS in January 2006.

When the organization was getting on its feet, there were many challenges, not least among which was staffing. “In the very beginning, there were just three of us and for 4 to 5 years we were searching for researchers to join us,” noted Durana. Although they added one analyst, Martin Vlachynsky, who had interacted with INESS for several years through various European seminars on Austrian economics, the need for experts grew. “We were doing heavy media outreach and policy advocacy outreach, and realized that all of this was beyond the physical powers of just a few people,” said Durana, adding that the organization now has 7 fulltime employees and a handful of well-equipped research interns.

Compared to many think tanks worldwide, that is still a fairly small staff, but you wouldn’t know it by considering INESS’ impact and reach, including over 1,000 media appearances per year. One reason for this is that INESS exclusively recruits new staff, including interns, through head hunting. They never post open positions publicly. This affords a greater degree of confidence in the hires they make, and ensures they stay at INESS longer because they know in advance that it will be a good fit.

In addition to the quality of products and staff, timing has played a key role in their success. “The early 1990s presented a bit of a black hole in ideology, following the transition from communist influence,” said Vlachynsky. The results of the liberal reforms that followed laid the foundation for the ideas INESS would later draw on to advocate for sound policy.
INESS was able to quickly grow to prominence by filling a void of its own. According to Durana, “there was no organization that was explaining to media, journalists, other professionals, and the public how the market works and what are the effects of government intervention for the common citizen.” This is a role INESS happily fills, advancing ideas that advance society’s main pillars: private property, peaceful coexistence and the guarantee of personal freedom.
In 2015 INESS was accepted into the Atlas Network’s LIFE program. They selected several components of the Ease of Doing Business Index by which their progress would be measured. Then they launched “Top 20,” a project with the ambition to increase the country’s standing on the Doing Business Index (Slovakia was ranked 29th in 2016).

Top 20 aims to raise public awareness and enlist support from journalists, politicians, the business community, and the public to make change happen. The project’s website includes a list of 52 specific reforms that are tied to the country’s business environment. “The way that laws are generated is not transparent,” said Vlachynsky, with Durana adding, “So we wanted to create an atmosphere of identifying tangible problems to help address competitiveness.”

Some of the targeted reforms were already on INESS’ agenda, but Top 20 provided a way to combine existing initiatives with new ones, unifying them under a common objective. “We saw this project as an opportunity to formalize what we do in an organized way,” said Vlachynsky. Due to this, the project has had an impact beyond just the project; it has shaped the way the institute now operates.

Top 20 was initially branded as “Top 30,” Durana noted, but because the methodology of the World Bank’s index changes, Slovakia’s score oscillates between the high 20s and low 30s. Therefore, they set a loftier target to brand their campaign and motivate further progress. The project is focused on solutions rather that criticism, aimed at materially improving the country’s business environment rather than simply finding faults.

INESS’ approach to affecting policy reform can be seen in their commitment to a consistent strategy for social change. This process can be broken into four categories:

1. Use expertise to identify issues
2. Leverage credibility to gain audience
3. Employ diverse methods to communicate ideas
4. Commit to long-term outcomes

USE EXPERTISE TO IDENTIFY ISSUES

In forming the specific policies to target, INESS scholars reviewed the components of the Doing Business Index and identified areas where they already had a knowledge base or existing research and other areas where they thought they could develop strong strategies and make quick advances – the low hanging fruit. They also visited political offices and explored what topics might be ripe for engagement.
The staff at INESS have deep expertise in business that springs not only from their years of research and advocacy on the topic, but because the vast majority of them worked in various business sectors before joining the think tank, ranging from banking to private equity to marketing. In fact, Durana is the only one who doesn’t have a background in formal economics training. Formerly developing vaccines as a biochemist, he now seeks to improve the health of society through sound policy.

The INESS team uses their understanding of business to hone their research specializations. While individual scholars have backgrounds that cater to certain policy areas, they all strive to live by the informal motto, “Everyone can be substituted.” This is particularly important due to the organization’s size, but it also helps in their wide-ranging conversations with media and policymakers since everyone is armed with a certain degree of shared expertise. This also helps to alleviate the need for a media team. As the organization grows, however, they are considering how specialization may be beneficial.

**LEVERAGE CREDIBILITY TO GAIN AUDIENCE**

Despite their depth of policy knowledge, Durana said that when they communicate the results of their

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### FINAL PROJECT GOALS

#### Starting a business

1. Reducing the number of procedures to start a business from 7 to 5
2. Shorten the time required to start a business from 11.5 to 4 days
3. Lower the minimal paid-in Minimum Capital Requirement to zero (“1 euro company”)
4. Reducing the number of payments from 20 to 11

#### Paying Taxes

1. Shortening the time required to comply with taxes from 207 to 150 hours
2. Reducing the total tax rate from 48.6% to 46%

#### Dealing with Licenses

1. Reducing the number of procedures to obtain a permit from 10 to 8
2. Shortening the time required to deal with licenses from 286 to 150 days

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analysis, they aim for simplicity and clarity, “showing clear numbers, using narratives, and explicitly identifying who is impacted by bad policies.” This builds a broad base of allies, irrespective of political party affiliation. Durana admits, however, that this tactic springs out of necessity rather than calculated strategy; “This is the way we have to operate given the size of the country.”

The non-partisan approach pays incredible dividends in access to policymakers. It’s also a hit among the media. “The media are hungry for information,” said Vlachynsky. Journalists cover broad topics, so INESS offers regular seminars to discuss various topics and introduce their own research.

INESS is careful to never use the terms “libertarian” or “free market” to define their work. This is to focus attention on the quality of their research rather than trigger ideological disputes. Since they cannot be labeled by outsiders, their ideas stand or fall on their own merits.

Transparent engagement unbiased by a self-identified ideological bent has provided INESS rare access to the policymaking process, including being asked by trade groups to author working papers on various reform ideas. “After 12 years of consistent output, we’ve become a recognized voice and have gained a seat at the table to work directly with interest groups,” commented Durana.

**EMPLOY DIVERSE METHODS TO COMMUNICATE IDEAS**

Slovakian politics are unique from what some in other countries may experience, Durana explained, because the parties tend to vote as a bloc; individual members are reticent to deviate from the direction of their leadership. This doesn’t stop INESS from attempting to reach these members anyway, sowing seeds in hopes of future fertility. However, one of the challenges is to identify the source where leadership is getting its information.

This plays into the way INESS laid out Top 20. “The politicians can basically shop from the list and choose what works for them,” said Durana. INESS aims to provide a repository with clear policy solutions that can be pulled off the shelf and put into action. This means policy reform proposals can infiltrate government offices that might otherwise be taciturn.

In addition to formal research studies highlighting reform proposals, INESS packages their research in various formats to target the range of stakeholders involved in the policy reform process. INESS co-founder Juraj Karpis wrote a 600-page book (some may call it a manifesto) on monetary policy, which is quite popular, and he regularly speaks on the subject to a range of audiences.

The institute also hosts events for various audiences, to include policymakers, journalists, industry, and the public. One such event addressed
competitiveness and hosted a number of international experts and political party representatives from nearly all parties in Slovakia. Another, on “electricity chaos,” featured the Minister of the Economy and other business leaders, which prompted a country-wide discussion that resulted in a reform proposal that would lower costs for industrial consumers.

INESS scholars are regularly invited to meetings with policymakers, trade associations, and media outlets. This access allows INESS to actively promote the case for Top 20 policy reform. Vlachynsky, however, was not satisfied, so he pursued a means of passive promotion, as well: a bureaucracy focused wall calendar.

Wanting to identify specific areas where bureaucracy harms society, the first idea was to enlist a data scientist to create infographics, but that route was particularly expensive. So he turned to a local artist. “Artists are always looking for an outlet for their work, so we provided one,” he stated. “We have to be innovative to survive.” They ran a limited printing of the calendar, which each month highlights a certain bureaucratic burden along with a solution, and distributed it to hand-picked stakeholders in business, media, and politics.

Understanding their cultural context allowed a tailored approach to advocacy. INESS found that playing on regional rivalry was an effective way to motivate reform that also tips the scales internationally. “In this part of the world, former communist states, we are always comparing who is better,” explained Durana. They launched a tandem project, unaffiliated with Top 20 and the LIFE program, called the Bureaucracy Index, which aims to quantify red tape and compares performance with neighboring countries Bulgaria and Czechia.

Vlachynsky agreed, adding, “People actually care more about relative rankings.” Knowing this, INESS is able to align several of its projects to reinforce each other. This helps to address the LIFE goals while leveraging the regional incentives to achieve even more progress.

This vignette underscores a common feature of INESS’ overall approach: a willingness to prioritize long-term objectives over short-term accomplishments.

**COMMIT TO LONG-TERM OUTCOMES**

INESS requires nimbleness, the ability to quickly adapt to a changing environment. Whether that’s evident in the way its members juggle multiple roles or in the way the organization adds or drops initiatives based on political shifts, the institute has proven to be quite flexible. Durana cites an unexpected feature for this capability, “We have no board of directors.” Admitting that many other think tanks are surprised by this characteristic, he explains, “This allows us to be flexible in what we can get involved in, and we can pivot quickly.”
The 3 “founding fathers,” as they are referred to in the organization, call the directional shots. Their intimate knowledge of the political landscape has proven to be an effective asset.

This trait gives them further credibility in a country exceptionally wary of outsiders. Trust, in turn, results in great opportunity for impact. “Since we have become the leading economic think tank in the country, political parties come to meet with us to get ideas. We help them adopt our ideas into their specific election policies.” As they do this across parties, they effectively hedge against the risk of political shifts.

However, a byproduct of tailoring the messaging of ideas to the particular target groups is that these groups are prone to appropriate ideas as their own. This is fine by INESS. When this happens, “we don’t claim credit,” stated Durana. “When parties think the ideas are their own, they are more likely to push for them.” This approach of not seeking credit fosters change across the political spectrum, diversifying the impact of INESS’ policy reforms and hedging against the pendulum of electoral politics.

When politicians introduce policies that are aligned with ideas that INESS has propagated, they do so expecting that INESS will, in turn, publicly support the policies with positive commentary. This aligns the incentives for politicians to advance quality reforms, representing one more way that INESS’ reputation itself materially supports the think tank’s mission.

RESULTS

INESS made considerable progress on impacting the selected components of the World Bank’s Ease of Doing Business Index. The made progress in the areas of Starting a Business and Paying Taxes, and have lined up several more proposals for adoption through meetings with the Ministry of Economy. Outside of the specific items targeted, INESS’ work can also be linked to progress in easing tax burdens on self-employment, abolishing the health deduction on dividends, and reducing a requirement for all employers to pay for health environment monitoring services.

OTHER ACHIEVEMENTS:

• Eased tax burden on self-employment
• The 14% health deduction on dividends was abolished
• Eased requirement for all employers to pay for health environment monitoring services

The Institute was not universally effective in changing the originally targeted components in the Doing Business index. In fact, they abandoned several goals altogether. But it can be argued that such a move was a sign of strength rather than weakness.

“We stopped working on the ‘Trading Across Borders’ component because it conflicted with EU initiatives and we realized we didn’t have deep expertise,” commented Vlachynsky. He also said that they attempted to pursue change in the Enforcing Contracts component
in conjunction with other think tanks with greater experience in that area, but those efforts have yet to result in marked change.

According to Durana, failure is an integral part of success. “We fail all the time,” he said, but followed up by saying that even though they have not succeeded in instituting over 30 of their suggested reforms, 5 have already been put into policy, and 5-7 more are actively being considered by policymakers.

When asked what they could have done better, Durana replied that releasing the components of the Top 20 project incrementally would have resulted in a more sustained impact. As it was, they flooded the market with a long list of reforms spanning various categories and this proved overwhelming to their audiences. If done again, he would release one category at a time and conduct targeted outreach with each one to maximize impact.
KEY INSIGHTS

A strict commitment to principles can pay off big time. INESS could have produced more research if they had been less discriminant in their hiring practices. But it’s dubious that they would have built such a strong reputation without the deep commitment to ideas shared across their hand-picked staff. This same calculated perspective has unquestionably influenced their penchant for favoring long-term success over short-term wins, which has positioned INESS for fruitful impact well into the future.

Knowing when to quit is a sign of quality leadership. Too many organizations double-down on ideas because they are too proud to admit they aren’t well positioned to affect change, demonstrating that they don’t understand “sunk cost.” While potentially embarrassing, throwing in the towel on an under-performing or failed venture can be one of the shrewdest moves an organization can make. INESS killed off several dimensions of its original goal. This allowed them to refocus the organization’s most precious resource, the limited capacity of its staff, toward the areas where they could more effectively drive reform.

Good ideas with an engaged audience go far. Finding the sweet spot between spamming uninterested individuals and getting stuck in an insular echo chamber can be a think tank’s hardest task. Fundamental to solving this quandary is humble self-reflection, understanding limitations and strengths and how they can best be leveraged. INESS intimately understands the market in which it operates. They effectively built their reputation as a respected voice by remaining open to working with anyone interested, through both passive and active engagement.

Being open to change, even dramatic change, can be instrumental to growth. INESS initially viewed the LIFE Program as a compliment to the work it already conducts. However, building and executing the project proved to be revolutionary for their entire organization. The project led to the inception of a systematic approach to their whole portfolio of policy reform efforts. This only happened because they were willing to consider a dramatic shake up of their entire organizational management framework. They were not wed to a particular operational paradigm, and this has vaulted their impact to the next level.
CONCLUSION

With a relatively small budget and staff, in a country rife with nationalist tendencies and a distrust for outside ideas, INESS has succeeded in pushing liberal market reforms in multiple policy areas. By focusing on building a reputation for trustworthy ideas and understanding how to effectively target various audiences, INESS has become a policy powerhouse and an example for organizations around the world.

LOOKING AHEAD...

Policy reform is never a permanent, as Slovakia’s own history illustrates. But INESS is playing the long-term game.

This year they launched INESS Political Academy to cater to rising policymakers who are committed to bringing about positive reform, irrespective of political ideology. The academy offers a blend of skills training and factual instruction. INESS has arranged for high-ranking outside experts, such as current and former European prime ministers, to lead classes. The goal is to ground participants in logical and evidence-based policy solutions rather than emotion, trusting that liberalized reforms will win the battle of ideas. They plan to educate 250 future policy leaders over 5 years of the program.
DISCUSSION QUESTIONS

- How did INESS take the challenge of a lack of think tank culture in their country and use it to their advantage? Although circumstances are likely different, what are some challenges you face, and how might you be able to turn those into opportunities?

- Currently INESS operates under the informal motto that “everyone can be substituted.” This has proven to be a strength thus far, but the organization indicated they may be moving toward adjusting this approach. How does your organization balance the flexibility of a shared common knowledge and the value of deep specialization? What are the benefits and drawbacks? How might that shift if your organization were to expand or contract in size?

- The organizational and management structure of INESS (e.g., hiring strategy, lack of a board of directors, “founding fathers,” etc.) is highly tailored to the particulars of its environment (i.e., a small, post-Soviet, nationalist, EU country wary of outsiders). How might the particulars of your country or state prompt adjustments to the standard think tank model? Are there features you think are nonnegotiable and necessary for any think tank to survive and thrive?

- The Bureaucracy wall calendar is an example of a project that combines innovation with the constraints and context the organization faces. What are some out-of-the-box ways your organization can achieve more with less?