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**STABILIZATION OF A WAR ECONOMY: THE CASE
OF YUGOSLAVIA (SERBIA AND MONTENEGRO)**

Vladimir Gligorov

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Stabilization of a War Economy: The Case of Yugoslavia (Serbia and Montenegro)

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Comments

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Introduction

The break-up of Yugoslavia in 1991 led to a civil war that is now three years old.¹ Initially, after a short military conflict in Slovenia in the Summer of 1991, the war broke out in Croatia in the Autumn of 1991, but then it moved into Bosnia and Herzegovina in the Spring of 1992. It brought persistent political instability to all the regions where it spread, so that, at the moment (January 1995), large parts of Croatia as well as the whole of Bosnia and Herzegovina are in a state of open or latent war.² One party to the war is Yugoslavia, which, for the moment, consists of two former Yugoslavia republics (federal states), Serbia and Montenegro.³ Though it has never entered the war openly, it has been very much involved in it politically, economically, and militarily. Indeed, it has functioned as a war state for more than three years now. It has gone through turbulent political developments and through a record-breaking hyperinflation. At the beginning of last year, a stabilization program was adopted and implemented that is still in effect. In this paper, I want to discuss this program and its achievements. I also want to discuss the possible implications of these stabilization efforts on the political developments in Yugoslavia and in the region as a whole.

I will, first, describe the road to the war state and to the war economy. Second, I will discuss the hyperinflation and the stabilization program that followed. Third, I will analyze the effects of the stabilization program and assess the present state of the Yugoslav economy. Finally, I will comment on some of the effects of the regime of sanctions that

Yugoslavia has been under since June 1992 (they were relaxed slightly in the Autumn of 1994 for the period of 100 days and this easing was renewed in January 1995 for another 100 days period) and will speculate about the further political and economic developments in Yugoslavia (Serbia and Montenegro) and in the region as a whole.

From de jure to de facto

The current state of affairs in Yugoslavia (both to a great extent in ex-Yugoslavia area as a whole, and decisively in the new Yugoslavia, i.e., Serbia and Montenegro) is, to a significant extent, an outcome of the strategy that was adopted by the Serbian political public in the mid-eighties.⁴ The core of that strategy can be put simply: from *de jure* to *de facto*. To see what it implies, the case of Kosovo will be discussed briefly.

Under the 1974 Yugoslav constitution, Kosovo, a region in Serbia, was an autonomous province. It did not have the same rights that the republics that formed the Yugoslav federation had,⁵ but its autonomy was quite extensive. Of course, the references to rights and autonomy have to be seen in the context of one party communist rule and a socialist economy. Thus, the level of the Kosovo autonomy could be judged not only and not primarily by its constitutional position but by the actual relationship that was established between the Serbian and the Kosovo communist parties and political authorities. Both, the *de jure* autonomy and the *de facto* political relationship, were not altogether clear. On the one hand, Kosovo was a Serbian province. But, on the other, it did not have to follow the Serbian line, both politically and legally,⁶ because it was directly represented in the political institutions of the Yugoslav federation. That arrangement made both sides dissatisfied. Serbia felt that it had no authority and no jurisdiction over a part of its territory, while Kosovo felt that it did not enjoy equal rights with Serbia and the other Yugoslav republics. In other

words, Kosovo was *de jure* a Serbian province, but *de facto* it was a Yugoslav province, i.e., a republic. To complicate matters, the 1974 Yugoslav constitution made this ambiguity a *de jure* one in the sense that the *de facto* state of affairs could not be changed without a change in the constitution. This was because the constitutional distribution of rights, the *de jure* aspect, and of power, the *de facto* aspect, were inconsistent not only *de facto* but also *de jure*, that is, as put down in the constitution. That created the tension that could either be resolved through constitutional changes or through the changes in the balance of power. That gave rise to a strategy choice that was faced by all, but most acutely by Serbia and the Serbs (together with the Albanians).⁷

Given this state of affairs, the original Serbian strategy, starting in the late seventies and continuing in the early eighties, was to push for constitutional clarification first and for constitutional change finally. The clarification sought was to remove the ambiguity as to the status of the autonomous provinces. Serbia wanted the two provinces to be subject to Serbia, legally and politically. That, indeed, was their constitutional position anyhow. However, due to the ambiguity of the constitutional distribution of power, they were *de facto* equal to Serbia. The ambiguity was as much due to the inconsistency in the constitution as to the communist system of rule. Thus, the original Serbian strategy implied not only the change in the distribution of regional rights and power but in the political system as such; it meant, as one strategic possibility, the move from communism to democracy. And, in fact, for a while, Serbia was leading in the democratization drive.

However, after about a decade or so of futile attempts to change the regional power structure, an alternative strategy was adopted. The new strategy was to force the change of the *de facto* situation first and then to arrive at a *de jure* settlement. The original strategy was to work for a long term constitutional development that could resolve the *de jure*

and *de facto* contradiction in a legal way and through increasing democratization. However, some time inconsistency problems emerged, as the larger Yugoslav transformation and post-socialist transformation agenda set in. Thus, at the crucial point in the mid-eighties the Serbian political public turned to the strategy that aimed to change the *de facto* as a precondition for the final *de jure* settlement.⁸ That involved the abandonment of the democratization efforts too and a sharp turn towards authoritarianism.

In the Kosovo example (as well as in the Vojvodina, the other autonomous province), that meant that Serbia was going to assert its authority in Kosovo with the use of all the necessary means. Then, the new order would be legalized in a new constitution. And, indeed, that was done in successive steps. Every change in the *de facto* situation was followed by a new constitutional arrangement. At this moment, the constitutional development of Yugoslavia (Serbia and Montenegro) is still far from over. But the same strategy with the same legal instability was followed and is followed in dealings with all the other ex-Yugoslavia states, provinces and regions.

This strategy involved political and legal arrangement that effectively defined at first Serbia (in 1990) and then Yugoslavia (Serbia and Montenegro, in 1992) as a war state. Without going into details, two fundamental elements have to be pointed out.

First, Serbia was constitutionally defined as a state without clear borders. Afterwards, Yugoslavia (Serbia and Montenegro) was defined in the same manner.⁹ It *de facto* incorporates the Serbian territories in both Croatia and Bosnia and Herzegovina. The integration process is indeed very important and complex (both politically and economically), but it cannot be treated in any detail here.

Second, the transformation of the Serbian, and afterwards Yugoslav (Serbia and Montenegro), economy into a market economy was put off with the realization that a socialist

economy is easier to transform into a war economy (indeed, in a sense, socialist or communist economy is a latent war economy).

Thus, the strategy adopted in mid-eighties in Serbia was to assume the *de facto* control over the most of the ex-Yugoslavia areas and to create, at the same time, the legal structure that could serve as an instrument of transformation of the *de facto* into the *de jure*.¹⁰ The political aim was to deny the relevance of the borders and thus justify their change, while the economic aim was to concentrate the resources to finance the political and eventually the war effort. Therefore, at this moment, Yugoslavia (Serbia and Montenegro) is yet to define its territory and the economic institutions and policies that are to make this territory an integral and integrated whole. As long as that is not done, Yugoslavia (Serbia and Montenegro) will behave as a war state and a war economy, though the stalmate, when arrived at, will transform the war into a latent state of affairs, thus introducing the *de facto* as a permanent state of affairs, as an enduring *modus vivendi*.¹¹ The integration of the areas dominated by Serbs (in Croatia and Bosnia and Herzegovina) or by Croats (in Bosnia and Herzegovina) with Yugoslavia (Serbia and Montenegro) and Croatia respectively will proceed in spite of the legal framework that recognizes the territorial integrity of both Croatia and Bosnia and Herzegovina. Thus, *de jure* will depend on the *de facto* for some time to come.

The Road to Hyperinflation

The former Yugoslavia experienced a hyperinflation in the second half of 1989. That hyperinflation was almost politically engineered with the idea that the economy will be easier to stabilize afterwards (it lasted only for a couple of months).¹² Indeed, in the first half of 1990 the stabilization plan introduced in mid-December of the previous year seemed to work exceptionally well.¹³ The results were arguably even better than the ones achieved in

Poland which introduced a similar stabilization plan at more or less the same time. The plan collapsed with the run on the foreign currency reserves by most of the then Yugoslav republics. Once that happened, the central banking system disintegrated and every republic went its separate way.¹⁴

Initially (in 1991 and 1992), Serbia relied on the inherited Yugoslav monetary institutions, that is, it relied on them while the war in Croatia was being fought and for some time after that. The formal disintegration of Yugoslavia started in June 1991, but the recognition of the secessionist states was delayed till January 1992, in case of Slovenia and Croatia, and even further in case of Bosnia and Herzegovina (April 1992) and Macedonia. In fact, the recognition of Slovenia and Croatia came only after a kind of a settlement for the war in Croatia had been found (at the end of 1991). The temporary solution to the war in Croatia was in tune with the Serbian strategy of putting the *de facto* ahead of the *de jure*.¹⁵ The so-called Vance plan for Croatia accepted the *de facto* Serbian control over the Serbian held territories in Croatia. With that, Serbia, and later Yugoslavia, became a war state not only in intention but in actual fact, that is, it extended over territories beyond its legal borders almost with international recognition because of the ambiguity mentioned above between the search for an overall solution that the international community started its Yugoslav involvement with and that of the recognition of the newly independent states that it turned to afterwards, though never completely.

In Spring of 1992 the war in Bosnia and Herzegovina started. At that point, the economic situation in the whole of ex-Yugoslavia had seriously deteriorated and the financial systems in all of the ex-Yugoslavia states were in chaos or in transformation. However, while all the other states, except Bosnia and Herzegovina, put forward successive stabilization plans, with varying success, Serbia, and later Yugoslavia, did not try to stabilize

its economy at all.¹⁶ Though it was obvious early on that an eventual hyperinflation is inevitable, the only detectable policy was to approach it in as gradual a manner as possible.¹⁷ In fact, it took Yugoslavia roughly a year and a half to experience the limits of hyperinflation. Only then a stabilization program was adopted. The alternatives to that were either a complete transformation into a barter economy (which, though perhaps ideologically acceptable to some influential factions of the ruling Socialist Party, was infeasible), or giving up on monetary authority and policy altogether (i.e., a spontaneous adoption of the German mark as the economy's currency).

What were the reasons for the adoption of the hyperinflationary economic policy? The reasons were the same that are behind any hyperinflationary policy. These are basically two.

On the one hand, high and rising inflation enables the government to redistribute resources in the desired manner. In case of Serbia, the financing of the war effort was the primary objective. Given the fact that the dissolution of former Yugoslavia hit Serbia very hard, there was little choice, given the political aims, but to use the inflationary financing. Indeed, the real policy problem was how to get to the hyperinflationary levels in as gradual a manner as possible, so that the policy benefits of the inflation tax of the ever rising inflation could be exploited as long as possible.

On the other hand, the rising inflation increases the dependence of the economy and of the population on the government. The mechanisms of dependence are simple. Rising inflation turns everybody towards the government for credits, licenses, salaries, wages, pensions and most everything else. In a socialist economy the dependence is greater than in a market economy because the economy is dependent on the state to begin with. As bad money drives out good money, investment falls or moves out of the country, and the economy

becomes almost completely dependent on the government's policy agenda. In case of Yugoslavia, the reliance on inflation was the basic instrument of transformation of the Yugoslav economy into a war economy.

To sum up. The reliance on rising inflation was deemed to be the best policy of transformation of the Yugoslav economy into a war economy because it enabled the Yugoslav government to redistribute the economy's resources to war purposes and to increase the dependence of the economy and of the most of the citizens on its policy agenda. In that effort, as I will argue later on, it was aided by the sanctions that were imposed on Yugoslavia by the United Nations.

The Stabilization Program

In January of this year, Yugoslavia, by some accounts, broke the world record in hyperinflation. The choice the government faced was: either a transformation to a barter economy or stabilization in one way or the other. It chose the latter. The important question is whether the choice of stabilization means the change in the long-term political strategy or not? This is what I will attempt to figure out discussing the stabilization plan, its implementation, its effects, and its prospects.

1. The stabilization plan introduced is a very simple one. It relies on a kind of an internal convertibility of the dinar with fixed exchange rate (1 dinar = 1 DM). However, there is not much else in the plan.¹⁸ Notably absent are changes in the budget level and its structure (though there is a target for the public spending that I will discuss below). Also, the stabilization is to proceed within the existing institutional structure, that is, the plan is to stabilize without reforming; e.g., there is no privatization plan to support the stabilization plan or to follow it up. Finally, the restructuring of the economy is seen not in terms of market

transformation but in terms of growth planning.

Thus, the stabilization plan has to be seen simply as an introduction of a fixed exchange rate as a nominal anchor. But there is little or nothing at all that is supposed to change the fundamentals of the economy. Indeed, only nine or so months after the introduction of the stabilization plan these other policy problems and options were being discussed all over again. I will come to that later.

2. The implementation of the plan can be divided into two phases. The first involved simply the introduction of the fixed exchange rate. The second, that started in July, was a decision to stop financing the state budget by printing money.

Both implementation phases were only partly successful. The fixed exchange rate was defended both by internal convertibility of the Yugoslav dinar and by restrictions on its convertibility (mainly through rationing). Therefore, the black market for foreign currency never completely disappeared. And indeed, its importance has predictably grown in proportion to the increasing difficulties with the sustainability of the convertibility of the Yugoslav currency at the official exchange rate.

On the other hand, the budget deficit apparently stopped being financed by the printing press in June or July, but only after the supply of money was significantly increased especially to finance the needs of the agriculture (and indeed not even then, at least as far as the federal budget is concerned). Thus, the divorce of the monetary and fiscal powers was not complete, and it is yet to be seen how stable it is going to be.

3. The initial as well as the results for the whole 1994 were presented as spectacular. The inflation rate went down dramatically, so that in Autumn of 1995 its annual level was 6.5%.¹⁹ With that, the gross national product went up by almost 5 percent, with industrial production posting a 2% increase and agricultural production a 6% increase (on an

annual level).²⁰ In addition to that, there was a marked increase in the level of real wages; about ten times from January to December 1994. There was a similar increase in the level of pensions and other benefits.

The greatest gain of course was that most of the shortages were eliminated²¹ and that there was no more need to spend all that time to optimize the money balances. Indeed, state's foreign currency reserves went up²² and the banking system, after huge financial scandals that it went through during 1992-1993, restored some kind of credibility. This is particularly true of the Central Bank and its governor, D. Avramovic, who is also the main author of the stabilization plan.

4. What are the prospects? To assess the prospects one has to have in mind the fact that one is dealing with a stabilization without a reform (on the prospect see more in appendix III). This fact determines the present state of the Yugoslav economy. As the only element of the stabilization plan is the fixed exchange rate, there has recently been significant speculation on the viability of this policy. Indeed, in the beginning of November, the speculation about the future monetary policy drove the black market exchange rate up by 20 to 30 percent (it already exceeded the official rate by 20 to 30%; at some point in late November and early December, the black market exchange rate was double the official one). That was due to the speculation that dinar would have to be devalued. Eventually, that option was apparently rejected and the black market calmed down somewhat. Rather than an open devaluation, the policy of monetary austerity was adopted (though an indirect devaluation in the form of export subsidies was introduced too). But that is likely to accentuate the problems rather than to solve anything.

The reasons are as follows.

First, the black market exchange rate was at least 50% higher than the official

rate and was still unstable at the end of the year. The deflation of that magnitude would be very costly and is probably quite infeasible. Therefore, the black market rate has nowhere else to go but up. Indeed, in November, the Yugoslav government introduced 33.3% export subsidy to slow the increase in the current account deficit, and that amounts to the virtual devaluation of the dinar (it also introduced import taxes and rationing through all kinds of restrictions).

Second, the fiscal situation is deteriorating. The target level of 41% of the GDP (gross national product) to be allocated for public expenditures, a target set in the stabilization plan, proved to be impossible to achieve. The current calculations put the actual level of public expenditures at at least 50% of GDP (officially) and at as much as above 60% of GDP (unofficially). That implies a fiscal deficit of more than 20% of GDP.

Third, there is no consensus on the post-stabilization economic policy. Indeed, there is serious opposition to the necessary institutional reforms, like privatization, without which the stabilization effort can only fail.

Fourth, and most importantly, there is still no change in the basic policy agenda. Though Yugoslavia has apparently pulled out of the war in Bosnia and Croatia, that is (a) practically impossible to do because of the achieved level of both political and economic integration of the Serbian held territories there and even more because of the intended further integration into one Serbian state, and (b) it would involve the change in the political strategy which has not yet happened: the main goal is still to rely on *de facto* changes (already achieved or yet to be attained) to get to a new legal order. In other words, Yugoslavia is still a war state and its economy is still a war economy, though the interest for a move from the *de facto* to the *de jure*, that is for normalization, is increasing. Even when the change finally occurs, Yugoslavia (Serbia and Montenegro) will have to face the huge

problem of integration of the Serbian lands in Bosnia and Herzegovina and Croatia, on which I will say more in the last section of this paper.

The Role of Sanctions

In 1992 Yugoslavia was put under a comprehensive regime of sanctions. During the years the regime was tightened, to have been relaxed slightly in October 1994. What were the effects of the regime of sanctions? It has strengthened Yugoslavia as a war state and as a war economy. I will sketch the reasons by discussing the functions that sanctions performed.

1. *The function of allocation.* The sanctions favored the black market and the black economy. As the sanctions do not affect the demand, the goods that dominate it are the usual black market goods and also those that are in greater demand given the main policy objective. Thus, the market turned to arms, oil, money laundering, crime, drugs and to similar goods. That of course is in accord with the war economy.

2. *The distributive function.* The sanctions were a very useful tool in achieving the specific distribution that is characteristic of a war state and economy. The costs of the war effort have to be distributed in some manner, and the sanctions give a very good instrument to do that in such a manner that there are very few if any redistributionary conflicts. The question of justice does not arise because it is transferred to the international level.

3. *The selective function.* In the three years period several hundred thousand Yugoslavs left the country. Also, more than half a million refugees settled in Yugoslavia. That has changed the social picture of the country dramatically. There is still no good study of these social developments. But it is obvious that the consequences will be far-reaching.

4. *The political function.* Sanctions have had a legitimizing role as they

invariably do. The current government has been able to face elections several times and to effectively defeat the opposition. At this point, it faces no serious challenge except from those who are even more in favor of the war than the government is.

There is no mystery in the fact that the sanctions have had the described effects. I will point out the two basic reasons.

On the one hand, the regime of complete sanctions is an instrument of war. If a country is put under such regime, the aim is to weaken it as an adversary in the ensuing military confrontation. As an instrument of will-breaking, it is quite inadequate. It increases the dependence of the economy and of the citizens on the government, because there is no alternative that the trade with the outside world provides.

On the other hand, an economy without sanctions or with targeted sanctions puts its firms and citizens in the position to compete for resources either to increase their welfare or to increase the instruments of destruction (there is a crowding out effect with not negligible consequences). The tighter the sanctions the more the crowding out effect tips the balance in favor of the production and distribution of the instruments of destruction.

The Possible Outcomes

I will first put down the three determinants of the long term problems that Yugoslavia (Serbia and Montenegro) faces:

1. The stabilization effort will either lead to the change in the political strategy of the current Yugoslav government, or it will turn into a mudle and will eventually fail. That is, it will either lead to some kind of political normalization and to the acceptance of the need for reform, or the economic situation will deteriorate. At the moment, the main supporter of the former possibility is the fear of hyperinflation erupting again. But, aside from that, there

is very little political support for any significant strategy change.

2. The transformation of Yugoslavia from war state and economy to that of a peaceful state will have to go together with the integration of the Serbian held regions in Croatia and Bosnia and Herzegovina. This is to say that the process will be a long term one and will be characterized by (i) conflicts over the long term political agenda, (ii) political and security instability in Yugoslavia (Serbia and Montenegro) and in the region of ex-Yugoslavia as well as in the Balkans as a whole, and (iii) by huge economic costs that will halt the recovery and development of Yugoslavia and the regions that it will integrate with for a rather long time.

3. The international community should look for a way to support the return to normality in one way or another. That means, in the first place, that some kind of a political solutions should be agreed on. Then the ways should be found for the gradual lifting of sanctions. There are two reasons for that. First, sanctions help the war rather than limiting it or influencing its outcome. Second, the normalization of Yugoslavia, if it can be achieved, will help that country to take up economic and political responsibilities that it has and will continue to have in the Balkans in a manner that is in conformity with the current European developments in terms of collective security and economic cooperation.

Then, I will just draw the conclusion that neither of these political fundamentals seem to be tackled properly by those involved. Because of that, the process of *de facto* changes and developments will go on with the long term instability bringing in bad prospects for the whole region for some time to come. That will lead Yugoslavia (whatever form it happens to eventually take) to be locked into a long term stagnation and even retardation process. The normalization of the international position of Yugoslavia could help avert some of the worst possible developments, but without a lasting political settlement it is

hard to predict the long term effects of such policy if it were to be adopted by the international community. On the other hand, further uncertainty as to which way the politics and economics of the Balkans might develop can stimulate the further deterioration of the security situation in the Balkans.

Notes

1. For a discussion of the causes of the break-up of Yugoslavia see Gligorov [1994a].
2. The recent effort at bringing peace to Bosnia and Herzegovina and the apparent willingness of Yugoslavia (Serbia and Montenegro) as well as the parties directly involved to come to some sort of an agreement on the cessation of hostilities might, at least at first, lead to the state of latent war in Bosnia and Herzegovina similar to, though more fragile than, the one that has existed in Croatia since the end of 1991 (there is a cease-fire agreement in Croatia under the so-called Vance plan negotiated and signed at the end of 1991). From that state to the state of peace there is a long road that essentially depends on a political solution to the fundamental problems that lead to the war in the first place to be found (a treatment of these fundamental problems can be found in Gligorov [1994a]).
3. Yugoslavia consisted of six republics: Serbia, Croatia, Slovenia, Bosnia and Herzegovina, Montenegro and Macedonia. There were also two autonomous provinces, both in Serbia: Vojvodina and Kosovo.
4. The development of the strategy and of its gradual adoption by all the segments of the political public is yet to be studied in detail. For some information see Gligorov [1994a].
5. The fundamental difference was in that Yugoslav republics were defined as states with rights to self-determination and secession, while autonomous provinces (of which there were two, both in Serbia, Kosovo and Vojvodina) were not defined as states and did not have the above mentioned rights. Many who discuss Yugoslav constitutional questions tend to say that autonomous provinces were virtually indistinguishable in rights with republics. That was not the case. As I argue below, they were *de facto* almost as autonomous as the republics, but *de jure* there was a very fundamental constitutional difference.
6. Kosovo had legal autonomy not only in areas of culture and education but in economic policy also and could even ratify some international treaties without the approval from Serbia.
7. Detailed discussion of the power structure can be found in Gligorov [1994a].
8. I deal with the rationality of that strategic choice at length in Gligorov [1994a].
9. On this see Gligorov [1991].
10. More on that strategy see Gligorov [1992].
11. On the distinction between the legal and the *modus vivendi* states of affairs see J. Rawls [1993].
12. For two reasons: (i) to get rid of the monetary overhang, and (ii) to get to the equilibrium relative prices through expectation adjustment that hyperinflation provides. The first reason was inappropriate for former Yugoslavia because its financial system was different from that of the so-called soviet economies; however, that fact was missed on some of the international financial institutions and advisers that supported the hyperinflationary approach. The second

proved also not to be right because for the relative prices to come to an equilibrium a longer and more devastating hyperinflation is necessary. For some discussion of the theoretical dimension of these issues see Gligorov [1994c] and [1995].

13. On that see Gligorov [1990].

14. A discussion of some of the aspects of the Markovic stabilization program and of its collapse can be found in Mencinger [1995].

15. In fact that coincided with the change in the international strategy towards the Yugoslav crisis. The so-called Vance plan was negotiated on the assumption that it was going to be a part of the comprehensive solution that was to involve the whole of ex-Yugoslavia. With the recognition of Slovenia and Croatia, the international community, the European Community first of all, abandoned the search for a comprehensive solution thus inheriting and augmenting the ambiguity between the *de facto* and the *de jure*. It has been unable to resolve it ever since.

16. For some references on the stabilization and transformation efforts of ex-Yugoslavia states see Gligorov [1994a].

17. This was done by various means of price controls and monetary rationing. Sometimes prices would be frozen and criminal charges would be brought against those that were to raise them; sometimes credit would be rationed; often both. For some discussion of the economic policy prior to the current stabilization effort, see Madzar [1993].

18. An account of the plan together with its justification can be found in a paper by its main author. See Avramovic [1994].

19. It has been rising more rapidly starting in October.

20. I use the official figures. They are disputed by some economic institutes as well as by *Ekonomska politika*, the best business weekly in Yugoslavia. For instance, the Institute for Economic Sciences in Belgrade calculates the growth of industrial production at 1% for the whole 1994. *Ekonomska politika*, however, puts the growth at -1%. The differences are actually not very significant because they depend largely on the methodology used, as the level of output fluctuated wildly in 1993 due to the approaching hyperinflation. Anyhow, there is no disagreement that the output responded positively to the price stabilization.

21. However, some have returned in late Autumn, most notably that of electricity (there are also shortages in milk and some other products).

22. Though it is not really known what they are.

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Appendix I

FR Yugoslavia (current picture)

Population: 10.500.000

Refugees to FRY: 450000

Refugees from FRY: 300000 (estimate)

Social product (SP): 20bn DM

SP in October: 2.49bn DM

SP November to December (projection): 1.8bn DM

Real GDP in 1994: 4.7%

Industrial production: 2%

Agricultural production: 6%

Real wages: January 25 DM, November 235 DM

Pensions: January 23 DM, September 165 DM

Trade: 38% up on 1993

Tourism: 18% up on 1993

Export/import: 90%

Overall fall in output (1989-1993): 60%

Industrial production 1994/1989: 33%

General welfare: 1968-1972

National income *per capita*: \$1250

Appendix II

Main indicators of Yugoslavia (Serbia and Montenegro)

year	1990	1991	1992	1993	1994
GDP	-8.4	-11.2	-26.1	-30.3	4.7
agric.	-7.0	9.7	-17.8	-7.2	6.0
industr.		-16.0	-21.0	-40.0	2.0
cons. (p)	4.0	-7.0	-26.0	-32.0	
cons. (s)	-4.3	-0.6	-30.7		
invest.	-20.1	-13.9	-28.0	-39.0	
r.inc. ^a	-4.7	-5.8	-48.1	-61	900
CPI ^b		120	8990	178888 ^c	
employ.	-3.0	-3.0	-3.4	-9.1	-1.0
unempl.	14.7	15.7	24.6	24.6	25.0
CAB ^d		-35	-1284		-616
FCR ^e	4.14	5.46	2.68	1.98	0.8
BIS ^f	7.07	7.98	5.50	4.66	3.87
b.def. ^g				28	25

a: *per capita*; b: consumer price index; c: December; d: current account balance (millions of dollars); e: foreign currency reserves (bn of dollars, 1994 estimate); f: bank of settlement reserves (bn dollars); g: budget deficit as a percentage of GDP (1994 estimate).

Sources: Economic Commission of Europe, 1994 Survey, official statistics, *Ekonomska politika*.

Appendix III

In January 1995 the discussion has started on the economic policy for 1995. It has centred around "Avramovic' ten commands," i.e., around the ten principles of economic policy put down by the Central Bank Governor Avramovic. The main ideas are as follows:

1. Further stability of the Yugoslav dinar (target inflation for 1995 0%).
2. No devaluation (to be achieved by restrictive monetary policy).
3. Wage freeze (on the November 1994 level).
4. Export subsidies, and import restrictions.
5. Public consumption 41% of GDP.
6. Balanced budget.
7. Price liberalization and anti-monopoly laws.
8. Increased controls of the commercial banks by the Central Bank.
9. Target GDP increase: 7% (industry 5%, agriculture 6%, other 10%).
10. Target increase in unemployment: 0%.

It is obvious that these targets cannot be achieved. For one, dinar has already devalued (implicitly). For another, the budget deficit is unavoidable especially because public consumption target seems quite unrealistic. It is also to be seen how wage freeze is to be accepted and implemented.

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