

THE CAUSES OF THE PUBLIC FINANCE CRASH IN THE SOCIALIST FEDERAL REPUBLIC OF YUGOSLAVIA

Sažetak

The Socialist Federal Republic of Yugoslavia (SFRY) was a federal state consisting of six socialist republics and two socialist autonomous provinces. The self-governing form of government that existed in the SFRY, was based on the leading role of the League of Communists of Yugoslavia. Applying the hierarchical principle of democratic centralism, the League governed the state, including all the social activities, and it organized the economic activity that was based on the collective. Thus, the main feature of this rule was the absolute state-party control. The public finances were created by applying a very high degree of ethatization as well as the planned economy. Due to these two postulates, the public needs were often financed by generating inflation, or by using gray money. The unemployment in the SFRY was a very big problem, which was never solved completely.

Keywords: *SFRY; inflation; hyperinflation; public debt; external debt; gray emissions; economic stabilization.*

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Introduction

The Socialist Federal Republic of Yugoslavia had a labor-intensive and medium-developed technology that featured worldwide a low accumulation, low earnings and a low consumption. There was an acute lack of capital for additional economic and social development. The Federal Executive Council¹ solved the problem of the lack of financial capital by borrowing abroad or by issuing new money. Both solutions were unfavorable to the economic and social development of the Yugoslav society, especially to its underdeveloped republics and autonomous provinces.

Towards the end of the seventies of the last century there were major disturbances in the economic life of the SFRY, the Yugoslav economy was faced with very large and pronounced development problems and difficulties. The emerging forms of major development problems and difficulties began to show in the following: the production stagnation, the decline in economic exchange with foreign countries; tightening of the balance of payments with a significant increase in external debt; significant problems of internal and external liquidity. One often used the primary money emission to cover the federal budget deficit and there were very high rates of inflation movements. There were noticeable problems of unemployment, especially of the young, qualified people, particularly in Kosovo. There was a real decline in the (employment income)² payroll, the decline of personal consumption and the decline of social and living standards on the whole. There was a shortage of consumer goods on the market and many municipalities introduced coupons for coffee, oil, sugar, detergents etc. At the federal level, one introduced electricity reductions, motorcycle fuel bills, and for a time there was a car ride on the so-called „even-odd“, namely, on certain days of the week only the car drivers whose licence plates ended with an even or odd number were allowed to drive.

A direct introduction to the crisis was the death of Josip Broz Tito, after which SIV devalued the dinar by 30%. During his illness, the Federal Executive Council

¹ The Federal Executive Council (FEC) represented the SFRY government. It was established in 1953, when it took over the responsibility of the Government of the FNRJ. It had a task of law enforcing, supervising the work of the federal administration, and carrying out other duties within the jurisdiction of the Federation. It consisted of at least fifteen members elected by the SFRY Assembly. The presidents of the republic and provincial executive councils (republic governments) automatically joined the FEC. In the period until 1963, the function of the FEC President was carried by the President of FNRJ, by the Constitution, and as of 1963 the FEC President was elected by the SFRY Assembly.

² In the SFRY instead of the term „salary“ the term „employment income“ was used and it was defined as a netto amount of money that a person earned by being employed.

tried to devalue the dinar on several occasions, but it never managed to, because it was opposed directly by Tito. Namely, Tito thought that if one would devalue the dinar, this would cause damage to the international reputation of the SFRY, which was important to him.

In order to stabilize the economic and social conditions in the SFRY in the second half of the eighties of the last century, three Programme documents were issued to exit from the economic crisis. They were: the Long-Term Economic Stabilization Programme, adopted in the middle of summer 1983; the Critical Analysis Of the Functioning Of the Political System Of Socialist Self-Government, discussed at the beginning of 1986; the Proposal To Introduce Changes in the SFRY Constitution, filed by the SFRY Presidency at the beginning of 1987.

1. Inflationary periods in SFRY

During the SFRY's existence, the inflationary waves were divided into five periods. The first period lasted from 1956 to 1962, characterized by the growth of industrial product prices by 1.2%, the price increase of 4.5%, the growth of the cost of living by 6.4%. The second period lasted from 1963 to 1966, characterized by an increase in industrial product prices of 7.8%, a 16% rise in retail prices, a growth of cost of living by 18.1%. The third period lasted from 1967 to 1975, characterized by an increase in industrial product prices of 11.4%, a 14.1% growth in retail prices, an increase in the cost of living of 14.1%. The fourth period lasted from 1976 to 1981, characterized by an increase in industrial product prices of 17.4%, a 21.8% growth in retail prices, a growth of cost of living by 21.7%. The fifth period lasted from 1982 to 1986, characterized by an increase in the prices of industrial products by 51.9%, the growth of retail prices by 56.3%, a rise in the cost of living of 56.3%³. The growth in retail prices and cost of living in the SFRY is best illustrated in Table No. 1. Over a period of ten years, retail prices have risen by 115 times and cost of living by 109 times⁴.

³ Marijan Korošić, *Jugoslavenska kriza, Naprijed/Ekonoski institut Zagreb, Zagreb, 1989, p. 59.*

⁴ The retail prices of industrial and agricultural products and the prices of services were recorded by the statisticians of the bureaus of statistics in the selected cities. The prices of industrial products were recorded once a month, as a rule in the five largest associated labour organizations. The prices of agricultural products were recorded twice a month, as a rule in the five trading organizations of the associated labour and in the market (2-5 markets); The prices of craft services were recorded once a month in three manufactures of the social (state) sector and five manufactures of the individual property sector. The average cost per city was calculated for each item in an unmatched arithmetic mean, based on the higher cost recorded at various locations in the city. For agricultural products,

Table no. 1 – The total index of growth in retail prices and costs of living (Ø 1987 = 100)⁵

Year	Retail Prices	Costs of Living
1979	2.6	2.7
1980	3.3	3.4
1981	4.9	4.9
1982	6.4	6.4
1983	8.8	9.0
1984	13.8	9.0
1985	24.4	24.0
1986	45.8	45.4
1987	100.0	100.0
1988	299.0	295.0

Despite the numerous changes and measures taken, the beginning of 1987 did not go smoothly. The inflation trend continued, hence increasing the intensity of unfavorable economic flows, especially in the area of production and exports, causing many disturbances in the functioning of markets and overall economic flows. For this reason, at the end of February 1987, the Federal Executive Council requested and the SFRY Assembly approved the intervention laws on the limitation of personal income payments, on the limitation of non-economic and non-production investments and on limitation of the spending of resources for socio-political communities and the self-governing communities of social activities. Shortly thereafter, in the second half of March 1987, the Federal Executive Council boosted direct state control of prices and even sought to return some prices to an earlier level with a pre-determined (allocated) percentage of price increases⁶.

The inflation movements are best illustrated by the exchange rate of the Dinar against the US dollar. Namely, after the Second World War, the value of the dinar was determined at 1.7928 milligrams of pure gold. In the international cash flow, the exchange rate of the dinar was related to the US dollar: 1948, \$ 1 = 50 dinars, 1952 \$ 1 = 300 dinars, 1960 \$ 1 = 750 dinars; 1965 \$ 1 = 1.250 dinars. During the economic reform in 1965, on the 24th July 1965, according to the provisions of the Law on issuance of new banknotes and coins⁷, the first denomination of the SFRY

the average price from the third week was calculated (from 15th to 21st of the month). The cost of living index (item price index and personal consumption service) was based on a special list of items and personal consumption services; the average retail price of goods and services, or their individual price indices. For the compilation of the list and the ponder calculation one used the data from the survey on consumption of all non-agricultural households.

⁵ Cfr. Statistički godišnjak Jugoslavije za 1989. godinu, Savezni zavod za statistiku, Beograd, 1989, p. 232-233.

⁶ Ibidem, p. 300-301.

⁷ Službeni list SFRJ, no. 33/1965.

dinar was performed after which a new dinar counted as one hundred old dinars. However, in spite of economic reform, the exchange rate of the dinars continued to fall, in 1973 \$ 1 = 15,600 dinars; 1976 \$ 1 = 18,281 dinars; 1979 \$ 1 = 19,163 dinars; 1980 \$ 1 = \$ 29,297; at the beginning of 1982 1 \$ = 45 dinars; in the last quarter of 1982 1 \$ = 65 dinars; and at the end of 1983 \$ 1 = 125 dinars; at the beginning of May 1985 \$ 1 = 275 dinar⁸; 1986 \$ 1 = 383.34 dinars; 1987 \$ 1 = 771.91 dinars; 1988. \$ 1 = 2610.18 dinars⁹. In the period from 1981 to 1988, the value of the dinar denominated in US dollars was the following: 1981 1 dinar = 0.004 \$; 1982 1 dinar = 0.006 \$; 1983. 1 dinar = \$ 0.013; 1984 1 dinar = 0.021 \$; 1985 1 dinar = 0.031 \$; 1986 1 dinar = 0.046 \$; 1987 1 dinar = \$ 0.12; 1988 1 dinar = \$ 0.521¹⁰. Looking at the period from 1973 to 1988, one can easily notice that the value of the dinar in relation to the US dollar fell by 167.3 times. Thus, this is the best indicator of monetary instability of the dinar during the SFRY's existence.

2. External debt of SFRY

Regarding deeper understanding of the inflation trends, it is interesting to analyze the rise of the US dollar price over the period lasting sixty-two years. Namely, the change in orientation regarding the US dollar exchange rate of the period from 1926 to 1998, can very well be understood from the Guidelines on the manner and procedure referring to the revalorization of the debt amount and the time limits for the debt payments in favour of the budget of the Republic of Croatia. The Guidelines were issued by the Ministry of Finance of the Republic of Croatia¹¹ on 12th July 1999.

The external debt of the SFRY had continuously increased from year to year. The debt amounts on the 31st December, according to the years, expressed in USD billions were as follows: 1966 = 1.18; 1973 = 3.98; 1979 = 14.01; 1980 = 17.34; 1981 = 19.51; 1982 = 18.62; 1983 = 18.72; 1984= 18:27; 1985 = 17.98; 1986 = 18.57¹²; 1986 = 20.59; 1987¹³ = 21.96; 1988 = 20.22¹⁴.

⁸ Cfr. Stevan Kukoleča, Organizaciono-poslovni leksikon, Izdavačka radna organizacija „Rad“, Beograd, 1986, p. 219-220.

⁹ Supra notae no. 5, p. 61.

¹⁰ Statistički godišnjak Jugoslavije za 1990. godinu, Savezni zavod za statistiku, Beograd, 1990, p. 776.

¹¹ Narodne novine, no. 77/1999.

¹² Bilten Narodne banke Jugoslavije, no. 12/1984, p. 71.

¹³ Bilten Narodne banke Jugoslavije, no. 11-12/1989, p. 73.

¹⁴ Supra notae no. 5, p. 229.

At the time of the dissolution of the SFRY, the external debt amounted to over \$ 23 billion, which was allocated to the successor states by the decisions of the International Monetary Fund Executive Committee. With regard to assets and debts, it was determined that 28.49% belong to the Republic of Croatia.¹⁵

Table no. 2 - The Exchange rate of SFRY Dinar on December 18, 1989¹⁶

currency	purchasable	medium	sales
AUD 1	87.75	87.89	88.02
ATS 100	917.06	918.44	919.82
CAD 1	96.34	96.48	96.63
DKK 100	1,662.22	1,664.72	1,667.22
FRF 100	1,885.49	1,888.32	1,891.15
DEM 100	6,459.96	6,469.66	6,479.37
ITL 100	8.66	8.67	8.69
CHF 100	7,194.0	7,205.1	7,216.42
GBP 1	179.29	179.55	179.82
USD 1	111.95	112.11	112.28

3. Employment rate in the SFRY

In the SFRY the unemployment represented a huge problem, which was never completely solved. While attempting to improve the social conditions in certain parts of the former federation, the authorities allowed the citizens to depart for the reason of the „temporary work abroad“, which for most Yugoslav immigrants meant the ultimate solution of employment but abroad. Compared to the total population, the figures of the unemployed were devastating. The official statistics published the following relevant data regarding the unemployed: 1984 = 974,787 (544,739 women or 55.65%)¹⁷; 1985 = 1,039,633 (578,561 women or 55.56%); 1986 = 1,086,716 (603,823 women or 55.81%); 1987 = 1,080,587 (603,140 women or 55.65%); 1988 = 1,131,764 (620,745 women or 54.84%); 1989 = 1,202,220 (650,772 women or 54.17%)¹⁸. Observed in relative figures, ie observing the ratio of total population and the employed, the highest unemployment was in SAP Kosovo, and the smallest in SR Slovenia. Over 50% of the unemployed were women.

¹⁵ Cfr. Miljenko Brekalo, *Evazija kapitalnih prihoda*, Svjetla grada d. o. o., Osijek, 2004, p. 134-137.

¹⁶ Exchange rate list at Slavenska banka d.d. Osijek of 18th December 1989, Glas Slavonije, no. 13690/1989, Osijek, of 18th December 1989, p. 20.

¹⁷ *Supra* notae no. 5, p. 474.

¹⁸ *Supra* notae no. 5, p. 467.

4. The level of employment incomes (salary) in the SFRY

The level of inflation movements in the SFRY is well illustrated on the example of employment incomes, ie the salaries of employees. The pure employment income¹⁹ per worker in dinars by years was as follows: 1983 = 15,858; 1984 = 22,810; 1985 = 40,661; 1986 = 84,670; 1987 = 173,965; 1988 = 472,722. Considered in percentages, the salary level increased nominally by 335%, but in reality, this was not the case, which is best seen in the US dollar exchange rate being in 1983 1 \$ = 125 dinars and in 1988 1 \$ = 2,610 dinars. Thus, the exchange rate of the dollar grew by 20.88 times over the five-year period, and the salary bill increased only 11.62 times. For example, pure employment income, according to the amount per worker in dinar by republics and provinces in 1988 was as follows: SR Slovenia = 719,544; SR Croatia = 514,231; SAP Vojvodina = 452,914; Serbia = 428,011; Serbia with the provinces = 424,533; SR Bosnia and Herzegovina = 398,110; SR Montenegro = 345,690; SR Macedonia = 321,158; SAP Kosovo = 314,085. Thus, Slovenia, Croatia and Vojvodina were above the Yugoslav average by the level of pure employment income, while the other republics and SAP Kosovo were below average. On the other hand, comparing the amount of pure employment income per employee at the republic and province level of 1988, the situation was as follows: SFRY = 100%, SR Slovenia = 152%, SR Croatia = 109%, SAP Vojvodina = 96%, Serbia = 91%, Serbia with the provinces = 90%, SR Bosnia and Herzegovina = 84%, SR Montenegro = 73%, SR Macedonia = 68%, SAP Kosovo = 66%. So, considering the relative figures, only Slovenia and Croatia were above the Yugoslav average²⁰.

In the SFRY there was a continuous negative balance on the trade balance sheet. In other words, it always had a higher import rate than the export rate; the import coverage was always smaller than the export, as is illustrated by table no. 3. which presents the analysis of imports and exports over a period of ten years²¹.

¹⁹ Since 1963 the data on pure employment income per employee had been obtained based on the regular monthly report on employees and pure incomes. Pure personal income includes the resources earned by workers in production activities, and it consists of employment income and other personal earnings. The pure personal income in the individual economy sector represents a part of the income of individual producers that remains at their disposal for the personal consumption of their households. The pure employment income and other personal earnings, that were charged as operational expenses of the business, are shown in the netto amount, ie without contributions for the employment income and other personal earnings. These contributions are included in the surplus of the product.

²⁰ *Supra* notae no. 5, p. 475.

²¹ The data sources for foreign trade statistics are customs declarations on export and import of goods. The SFRY foreign trade statistics included exports of all the goods coming from domestic

Table no. 3 - Foreign trade exchange in billions of dinars²²

Year	Export	Import	Trade balance the balance	Import coverage by export (%)
1979	8,574	17,691	-9,117	48.5
1980	11,330	19,011	-7,681	59.6
1981	12,878	18,335	-5,457	70.2
1982	12,523	16,089	-3,566	77.8
1983	12,233	14,924	-2,691	82.0
1984	12,611	14,695	-2,084	85.8
1985	13,349	15,295	-1,946	87.3
1986	14,188	16,916	-2,728	83.9
1987	15,383	17,125	-1,742	89.8
1988	16,590	17,371	-781	95.5

„The year of 1989 was a year of relations breakdown. The worst relations were between Slovenia and Serbia. This was not a natural hostility because both republics had profited greatly in Yugoslavia. Serbs used Yugoslavia to unite their widespread population into a unified state. Slovenes used it for security and business reasons. „²³

5. The Economic Stabilization Programme of 1989

The Programme that was introduced by Ante Marković²⁴ in the Socialist Federal Republic of Yugoslavia on 18 December 1989 was a the Programme of economic reform and a Programme of democratization of the entire Yugoslav society. The

production, ie from the domestic trade, including the so-called „national goods”, ie goods that were imported and customs cleared, and then they were exported in the unaltered state to the overseas market as Yugoslav goods. The import included all the goods imported from overseas, which were customs cleared and released for internal trade for the sake of reproduction, investments or broad consumption. The value of goods in foreign trade was expressed based on the prices achieved by the organizations of the associated labor when concluding the contract. One calculated all values based on the parity franco Yugoslav border: FOB price for export, CIF for import. The values were calculated at the then exchange rates that were valid on the day of customs clearance. The costs for the transport, insurance and transshipment, etc., were calculated also at the then exchange rates, and they were paid in foreign currency.

²² Supra notae no. 5, p. 110.

²³ Warren Zimmerman, Izvori jedne katastrofe, Globus/Znanje, Zagreb, 1997, p. 45.

²⁴ Ante Marković (born 25th November 1924, Konjic - died 24th November 2011, Zagreb), Croatian businessman and a politician, graduated in electrical engineering at the University of Zagreb in 1954. He had worked for many years at the company „Rade Končar“, where he was employed as a designer, a chief of research department, a technical manager assistant, a general manager assistant, and he was a general manager from 1961 until 1984. From 1982 until 1991 he was actively engaged in politics, carrying the following prominent political duties: President of the Executive Council of the Republic of Croatia (1982-1986), President of the Presidency of the Republic of Croatia

Programme included changes in politics, economy, society and citizens' rights, and it anticipated several stages: a stabilization Programme, an economic reform, a privatization, a state reform and a multiparty system. According to Marković, the main objective of the Programme was to create large foreign currency reserves, which was a prerequisite for dinar convertibility; a new macroeconomic policy; monetary reforms; liberalization of prices and of foreign trade; reduction of general and public spending; inflation stop; recovery and reform of the banking system; start of the privatization process, etc.

On 18th December 1989 Marković explained in detail and presented his anti-inflation Programme in his talk to the SFRY Assembly. According to him, as outlined above, the core characteristics of the model for the recovery of the economy and the financial system are the convertibility of the Dinar in current foreign transactions and the right of citizens to freely exchange dinars for foreign currencies at the official exchange rate. The exchange rate of the Dinar was linked to the West German Mark, and the exchange rate was not changed until June 1990. At the same time, the Yugoslav Dinar was denominated, from the then ten thousand dinars to a one convertible dinar. Starting from the 19th December 1989, one West German mark was worth seven Dinars, and the US dollar twelve dinars. The normative basis of the second Dinar denomination in the SFRY was the Law on Changing the Value of the Dinar²⁵. However, among the main features of his reform, Marković emphasized the strong monetary policy, the budget balanced by its very own real income and the free formation of the interest rate, with the corresponding role of the discount rate of the National Bank of Yugoslavia. According to him, the basis for the implementation of his Programme were the large foreign currency reserves that reached the level of 5.8 billion US dollars, the expected surplus in the state balance of payments for 1990, as well as a strong foreign financial support. By the end of 1990, Marković predicted a thirteen-percent increase in prices, which would be freely formed, except in the infrastructure and communal services and this would happen by the end of June 1990²⁶.

(1986-1988), Chairman of the Federal Executive Council of the Socialist Federal Republic of Yugoslavia (16th March 1989 – 20th December 1991).

²⁵ Službeni list SFRJ, no. 83/1989.

²⁶ Cfr. Glas Slavonije, no.13691/1989., Osijek, of 19th December, 1989, p.1-3.

Table no. 2 - Exchange rate of SFRY Dinar on December 18, 1989²⁷

Currency	purchasable	medium	sales
AUD 1	94.18	94.33	94.47
ATS 100	991.90	993.39	994.88
CAD 1	103.45	103.61	103.76
DKK 100	1,796.99	1,799.69	1,802.39
FRF 100	2,044.53	2,047.60	2,050.67
DEM 100	6,989.50	7,000.00	7,010.50
ITL 100	9.35	9.36	9.37
NLG 100	6,191.41	6,200.71	6,210.01
SEK 100	1,922.88	1,925.77	1,928.66
CHF 100	7,791.23	6,200.71	6,210.01
GBP 1	192.98	193.27	193.56
USD 1	120.21	120.39	120.58

The ideological creator of the anti-inflation Programme was an American economist Jeffrey David Sachs²⁸, whom Marković hired, upon having been persuaded by Slovenian Janez Drnovšek. After the introduction of the anti-inflation Programme, the result was obvious; at the beginning of 1990, Marković lowered inflation to a zero, ie by more than twenty-five thousand per cent a year, which was the 14th largest inflation in the history of mankind. In a period of less than a year, Marković had quadrupled the foreign currency reserves, and had begun the process of opening the economy for investors.²⁹

According to Sachs, the main objective of the anti-inflation Programme was to suppress the then hyperinflation, and then to stabilize economic conditions that were extremely bad in the Federal Yugoslavia. Together with Ante Marković, he managed to do only the first task, ie in early 1990s they managed to stabilize the monetary

²⁷ Exchange rate list at Slavenska banka d.d. Osijek of 19th December 1989, Glas Slavonije, no. 13691/1989, Osijek, of 19h December 1989, p. 20.

²⁸ Jeffrey David Sachs (born 5th September 1954 Detroit), an American economist. From 1980, he was a professor of international trade at Harvard University and since 2002 he has been a professor at Columbian University and a director of Eart Institute. He was an economic advisor to the International Monetary Fund, the World Bank, UN Secretary General Kofi Annana, and to a number of Latin American governments. He became world-known in 1985, when he, as a 30-year-old one, made a Programme that stopped the hyperinflation in Bolivia. This event gave him an international reputation in a professional sense. After the communisam had collapsed communism in Europe, he organized privatization in Poland and then in Russia. The Polish model was declared successful, but the Russian model allowed huge plundering and the emergence of the oligarch class. After a negative Russian experience, he claimed that Boris Yelcin and a corrupt Russian administration were to be blamed for all. Namely, as soon as he realized what was going on, he left Russia. At the turn of 1989/1990 he also advised the last Prime Minister of the SFRY, Ante Marković, he was one of the initiators of inflation reduction and the creation of a stable dinar.

²⁹ Supra notae no. 23, p. 66.

system, to strengthen the exchange rate against foreign currencies and to bring inflation to a one-digit-level, but then there were two reasons why the reform plans were stopped after a short time. The first was called Slobodan Milošević whose politics destroyed the state, and the second was the international community that did not want to interfere in the internal affairs. The international community did not make a minimum effort to stop the disintegration process and one could not administer a successful economic policy under these circumstances.

As a strong indicator of the passive attitude of the international community towards Marković's efforts aimed at stabilizing the Dinar exchange rate and at revitalizing the Yugoslav economy, one can quote the words by Warren Zimmerman, a former US Ambassador in Belgrade, regarding Marković's visit to the United States in October 1989. „What Marković wanted more than anything was the support from the West. He saw the US as a crucial state. He wanted to go to Washington and visit President Bush. He wanted a clear statement of the US support for his Programme. But above all, he wanted money. How much? „Well,“ he said with an infectious smile, „I play a great game, and that means a lot of money. I think that the \$ 4 billion would be a good start to boost the reform that goes further than anything in the Eastern Europe.“ Swallowing with difficulty, I told him I would forward the request to Washington. I knew what the answer would be. American politics in Eastern Europe were focused on Poland and Hungary, the countries that were on the road of transition much faster than Yugoslavia and without the luggage of a rifting nationalism. Yugoslavia was seen as a worthless risk and therefore of low priority.

Marković finally travelled to Washington in October 1989. I lobbied hard for this visit. With the help of Eagleburger and the State Department's European Office, the White House agreed to arrange a meeting with President Bush, Defense Minister Cheney, Treasury Secretary Brady and Foreign Trade Minister Mosbacher, as well as to schedule a visit to Congress and a visit to New York for the talks with bankers and business people. I watched Marković at all his meetings, and I could notice that he was confused by the way Washington treated foreign dignitaries. Like many leaders of small countries, he was looking forward to the attention, the proper respect and the generous hospitality – a guest apartment, an official car, lunches and dinners in his honor, all the follow-up in the American press. He did not get any of that. The US government did not pay any cent for his visit. In fact, the only bill Marković did not have to pay was a round table with breakfast at the New York Foreign Affairs Council ...³⁰

³⁰ Supra notae no. 23, p. 64-65.

Marković's Programme was supported by the whole SFRY. It was only Milošević, who was against him, namely, he demanded that the delegates in the SFRY Assembly who were from Serbia, Vojvodina, Kosovo and Montenegro vote against the Programme, saying on that occasion: „We should not allow Ante Marković to pass with this Programme, because it will be hard to get rid of him later.“³¹ „Milošević was forcing Serbian delegates not to accept all the points of the Programme. For Milošević, the Programme had been an obstacle to his efforts to gain the absolute power in Yugoslavia. The introduction of a multiparty system and elections in Yugoslavia would prevent Milošević from remaining in power. Serbia and Slovenia opposed the Yugoslav elections. Slovenia did it because of separatism, and Serbia, ie Milošević, did it because of its Greater Serbia ambitions. „³² Liberalization of political and economic conditions in Yugoslavia did not suit Milošević, at all cost he tried to hinder the success of the economic and political reform Marković was trying to implement. In the case of Marković's success, his Programme would be condemned to failure, the aroused nationalism and chauvinism in Serbia would be condemned to ruin, and hence the idea of a Greater Serbia.

The failure of Marković's Programme could be anticipated at the end of the first year of its existence, which could best be concluded from his talk at the SFRY Assembly on 28th December 1990. On that day he stated the following: „It does not matter whether we go on together or individually, whether we will remain within one state or not, whether there is one or another political system, prevailing in this or that part of our country. It is not possible to skip the problems of the transition period, of the transition from one system to another one, at all the economic, social and at the political costs that have to be paid.“³³ On that occasion, Marković announced the correction of the foreign exchange rate of the Dinar, namely, on 27th December 1990, the Federal Executive Council passed the decision that as of 1st January 1991 the West German Mark was worth nine dinars, two dinars more than in 1990.

According to Marković, such an alteration of the exchange rate was the optimal solution, as it balanced the export incentive with the possibility of depreciating the price shock and thereby preserving the relative price stability. The Federal Executive Council had to make decisions blocking the transactions in the foreign exchange market, as the foreign reserves since September 1990, when they amounted to about ten billion US dollars, had been reduced by two and a half billion dollars, out of

³¹ Cfr. Borisav Jović, *Poslednji dani SFRJ*, Vlastita naklada, Beograd, 1996; p.17-18.

³² *Srušite reforme, srušite Markovića*, *Vjesnik*, br. 20086/2003, Zagreb, of 30th October 2003, p. 7.

³³ *Glas Slavonije*, no. 14008/1990, Osijek, of 29th December 1990, p. 1

which a billion and a half just in December. Marković saw the cause of these occurrences in the fact that companies did not bring foreign currencies into Yugoslavia because they were waiting for the alteration of the exchange rate in anticipated payments abroad, in order to pay for everything they could at the lowest exchange rate possible. The second cause was also the fact that the citizens themselves were buying more foreign currency. The ratio of inflows and outflows of foreign currencies belonging to citizens, having reached about one hundred and seventy million dollars by the end of September 1990, then amounted to two billion and seven hundred million dollars.³⁴

After the January's alteration of the exchange rate of the Dinar, one anticipated the economic collapse which was an additional generator of the political crisis in Yugoslavia, and in the mid-1991 it was also a direct introduction to the war events in the territory of the Republic of Slovenia and the Republic of Croatia. The table no. 5 shows the foreign exchange rate of the Yugoslav Dinar after the devaluation of 1st January 1991.

Table no. 5 - The foreign exchange rate of the SFRY Dinar after the devaluation of 1st January 1991³⁵.

Currency	purchasable	medium	sales
AUD 1	1.32	10.35	10.38
ATS 100	126.88	127.26	127.65
CAD 1	11.55	11.58	11.62
DKK 100	231.13	321.82	232.52
FRF 100	263.11	263.90	264.69
DEM 100	987.30	900.00	902.70
ITL 100	11.9	1.19	1.19
NLG 100	795.34	797.74	800.13
SEK 100	236.84	235.56	238.27
CHF 100	1,052.24	1,055.41	1,058.57
GBP 1	25.83	25.91	25.98
USD 1	13.40	13.44	13.48

While giving his testimony in the war crime trial of Slobodan Milošević at the International Criminal Tribunal for the former Yugoslavia in the Hague, Ante Marković stated the fact-based actions of Milošević's regime that were directed against anti-inflationary and other measures taken by the then Federal Government. Among

³⁴ Ibidem, p. 5.

³⁵ Exchange rate list at Slavenska banka d.d. Osijek of 1st January 1991, Glas Slavonije, no. 1,4009/1990, Osijek, of 31st December 1990/ 1st & 2nd January 1991, p 32.

other things, Milošević took the following measures: on 20th December 1989, he had a one-and-a-half-hour strike against the Programme held in Belgrade. At the same time, in order to endanger the Programme, the salaries in Serbia were increased, although the salary freeze was one of the core ideas of the Programme. Milošević also organized the opposition to the Programme of economic stabilization at the sessions of the Assembly of SR Serbia and of the Executive Council of SR Serbia, that were both closed to the public.^{36 37}

„In order to carry out the reform, all the republics needed to give their support. It is enough to say that the governments of Serbia and of Vojvodina publicly opposed the reforms and democratization. The success of reforms and democratization in the country, after multi-party elections in Yugoslavia, would mean Milošević's loss of every opportunity to keep Yugoslavia under his control applying his undemocratic methods. If I had gotten the support for my Programme, I think Slovenia would not have had any reason to secede from the federation. Due to the extremely successful parts of the Programme, which included economic reform, my popularity was at a very high level at the beginning of 1990. According to the survey results, my status was better than Kučan's in Slovenia or Milosević's in Serbia. If the elections had been held at that time, nobody could have defeated me. Slobodan Milošević did not allow such popularity as it was an obstacle to his plans. As a result of economic reforms, inflation was at zero point; we had eleven billion dollars in foreign exchange reserves; the balance of payments was positive; during the first year of my term, sixty-five thousand private companies were founded; the debt was reduced from \$ 21 billion to \$ 12.2 billion. Opposing the Programme, Serbia claimed that the rich parts of the SFRY would become even richer, and the poor ones would be even poorer. That was not the truth. The SFRY had financed Bosnia and Herzegovina, Macedonia, Montenegro and Kosovo, and had taken over part of their international obligations in order to facilitate the reforms^{38,39}

In addition, Serbia argued that the federal government would not support the agrarian sector because it had abolished primary emissions for this purpose.

³⁶ The *Vjesnik*, Zagreb daily newspaper, published a series of parts of Ante Marković's testimony in the war crimes trial of Slobodan Milošević at the International Criminal Tribunal in the Hague, titled „What Ante Marković said testifying at the Hague trial of Slobodan Milošević. The series was published in sixteen-part series, in the period from 30th October 2003 until 15th November 2003.

³⁷ The *Globus*, the weekly magazine no. 673/2003, Zagreb, of 31st October, 2003, p. 18-26.

³⁸ *Supra* notae no. 23, p. 53-54.

³⁹ Narodna banka Srbije 1990. opljačkala je iz NBJ dvije i pol milijarde maraka, što je Ante Marković rekao svjedočeći na Haaškom suđenju Slobodanu Miloševiću; *Vjesnik*, no. 20088/2003, Zagreb, of 2nd November 2003, p. 5.

However, it was envisaged that the financial support for agriculture would come from the budget, rather than from primary emissions, as it had been the case before. The prices of agricultural products had not risen - not only had we had large foreign currency reserves, but we had also had great reserves of wheat, corn, sugar, oil, etc. which we could have placed on the market in order to control the prices. In addition, I tried to put an end to the practice of exporting the SFRY goods to the Soviet Union without payment. The National Bank of Yugoslavia (NBJ) had the authority to make payments to SFRY companies without checking whether Soviet companies paid for the exported goods. (This was another form of primary emission or money printing.) I tried to stop this practice because it led to the buildup of the debt of the USSR (which at that time amounted to \$ 2.8 billion) to Yugoslavia, thus directly influencing the inflation growth. I tried to stop this practice by asking that the National Bank of Yugoslavia (NBJ) to submit the payment confirmations before the NBJ itself made a payment. This led to the fact that the clearing dollar exchange rate was lower than the real exchange rate of the dollar, and this referred to all the companies in Yugoslavia.⁴⁰

Milošević had control over almost half of Yugoslavia, but despite his attempts to obstruct and sabotage the reforms, during the first year the reforms were remarkably successful and promising. Public spending was put under control and it moved within the budget without the use of funds from the primary emission. This meant that the JNA expenditures were also put under control. These circumstances and the upcoming elections in Serbia and Montenegro made Milošević break through the monetary system and commit the „plunder of the century“. This attack was supposed to stop the process of reforms and democratization and to weaken the already diminished powers of the federal government. The plunder in which the RSD 18.2 billion (DEM 2.5 billion) was transferred from the National Bank of Yugoslavia to the Serbian National Bank was carried out overnight, which was reported to me by my men privately the very same morning and I did not receive any official notification whatsoever.

I immediately phoned Milošević and accused him of the robbery, which he denied, of course, lying that he had no idea about it and that he would investigate the matter. I replied that nothing in Serbia, no matter how insignificant it would be, could be accomplished without his knowledge, and, in particular, not the robbery of that size. I asked him to immediately cancel this decision (the move), which he also „promised“ to do, provided the robbery was true. On the very same day I summoned

⁴⁰ Supra notae no. 31, p. 22-24.

the government session and obliged the NBJ to make a refund. As far as I remember, ten to eleven billion dinars were returned within two to three weeks. That means that seven to eight billion dinars or one billion DEM were not returned.⁴¹

6. The Last Budget of the SFRY of 1991

The SFRY budget of 1991 was established at the end of 1990. This budget was set up by the same principles as the 1989 budget for the budget of 1990. However, the events changed the situation. The financial difficulties returned inevitably, especially after Slovenia and Serbia, and then Croatia, refused to pay taxes to the Federal Budget. In the second half of 1991, the federal budget collapsed. We had a financial deficit for which there was no cover, and the debts grew. In the government they kept me away and denied me the information. One began to make decisions on finances without my knowledge or consent. I opposed the use of primary emissions to finance the budget, on the other hand, Milošević supported the financing of the budget from primary emissions.

In the second half of 1991, Milošević was in fact controlling the rebalancing of the federal budget by controlling the representatives of the Federal Assembly and the Federal Presidency. In December 1991, the 1992 SFRY budget was being prepared, but without me. That was a war budget. According to this budget, about 81% of funds were to be allocated for JNA expenditures. I tried to fight against this in the government, but I, for the first time, remained completely alone attempting to do that. I had no support whatsoever. I did not stand a chance to succeed. I did not want to take part in the bloodshed that would, of course, follow the adoption of this budget. Therefore, on 20th December 1991, I resigned. I informed cca. 200-300 journalists about my decision and flew via Graz to Zagreb.⁴²

The military budget was part of the SFRY budget. The military budget was first prepared by the Federal Secretariat for Defense, and then the Federal Government adjusted it and included it in the overall budget. Then the Presidency was informed about the overall budget. The final decision on the budget was made by the Federal Assembly. When the 1991 budget was being prepared at the end of 1990, the Government and I still had control over the preparations for the budget set up. That was not the case later on. The Council of Governors of the NBJ made a decision on primary emissions as well as in the cases when these were used to finance the federal

⁴¹ *Supra* notae no. 31, p. 25.

⁴² *Supra* notae no. 31, p. 214-215.

budget deficit. The Council of Governors existed before the fall of the SFRY. It consisted of the governors of the National Bank of all six republics and two autonomous provinces.

The Council of Governors functioned the same way as the Presidency of the SFRY - some of the decisions were made on the basis of majority votes, while some other decisions required the consent of all the representatives. In order to make a decision on the primary emissions one required the consent of the Council of Governors. Milošević had no influence on the decisions made by the Council of Governors in 1989 and in 1990. That changed in the second half of 1991. Milošević had his own men in the Council of Governors. The Council of Governors then functioned the same way as the SFRY Presidency, because the Governors of the republics of the National Bank left the Council. The NBJ was supposed to function as an independent institution, but by the end of 1991 it was under Milošević's supervision.⁴³

Conclusion

The inflation movements were one of the main features of the Yugoslav economy. In the SFRY from 1946 to 1991, the money stock grew faster than the growth of the social product and the national income, at the same time the exchange rate of Dinar recorded a constant and significant decline compared to other currencies.

The use of a new money supply proved to be a very effective means of fostering the Yugoslav state's income, and at the same time, it is worth pointing out that it had proved to be a dangerous tool. The new money supply had a negative impact on the economic stability of the country, inducing a powerful inflationary wave. In other words, using the primary money supply to cover the budget deficit meant to generate inflation on purpose, and this inflation got out of control so the burden of financing public needs had been shifted to the citizens.

The main objective of Marković's anti-inflation Programme was to suppress the then hyperinflation of that time, and then to stabilize the economic conditions that were so poor in the SFRY. Ante Marković managed to realize the first task, ie in the beginning of 1990, he managed to stabilize the monetary system, to strengthen the exchange rate against foreign currencies and to bring the inflation to a one-digit level, but then there were two reasons why the reform plans were soon stopped. The first one was called Slobodan Milošević, whose politics destroyed the state, and the

⁴³ *Supra* notae no. 39, p. 5-6.

second reason was the international community that did not want to interfere in the internal affairs. The international community did not make a minimum effort to stop the disintegration processes, and under these circumstances one could not conduct a successful economic policy.

The SFRY budget of 1991 was established at the end of 1990 having been set up by the same principles as the budget of 1990. The political events changed the situation, the financial difficulties returned inevitably, especially after Slovenia and Serbia, and then Croatia, refused

to pay taxes to the Federal Budget, which collapsed in the second half of 1991, when a large budget deficit emerged without cover, the state debts continued to grow towards foreign creditors. In the SIV, the supporters of the Greater Serbias policy denied Marković the information; the decisions on financing the public needs at the federal level were being made without his knowledge. Marković opposed the use of primary emissions as a means of budget funding, whereas Milošević, on the other hand, supported the financing of the budget from primary emissions, which he financed the war in Slovenia and Croatia from. In the second half of 1991, Milošević controlled the rebalancing of the SFRY Budget by controlling representatives of the SFRY Assembly and the SFRY Presidency. In the autumn of 1991, the disintegration of the SFRY occurred, the former federal republics became independent states, which were recognized internationally by the end of 1991 and at the beginning of 1992.

UZROCI FINANCIJSKOG SLOMA U SOCIJALISTIČKOJ FEDERALNOJ REPUBLICI JUGOSLAVIJI

Sažetak

Socijalistička Federativna Republika Jugoslavija (SFRJ) bila je savezna država koja se sastojala od šest socijalističkih republika i dvije socijalističke autonomne pokrajine. Samoupravni oblik vlasti koji je postojao u SFRJ, temeljio se na vodećoj ulozi Saveza komunista Jugoslavije. Primjenjujući hijerarhijsko načelo demokratskog centralizma, Liga je upravljala državom, uključujući sve društvene aktivnosti i organizirala je gospodarsku aktivnost koja se temeljila na kolektivu. Dakle, glavna značajka ove vladavine bila je apsolutna kontrola države i stranke. Javne financije nastale su primjenom vrlo visokog stupnja etatizacije kao i planirane ekonomije. Zbog ova dva postulata, javne potrebe često su se financirale stvaranjem inflacije ili korištenjem sivog novca. Nezaposlenost u SFRJ bila je vrlo velik problem koji nikada nije u potpunosti riješen.

Ključne riječi: SFRJ; inflacija; hiperinflaciju; javni dug; vanjski dug; sive emisije; ekonomska stabilizacija.

