

Economic Development of Former Yugoslav Countries

Saša Kresojević

Faculty of Technical Sciences, Novi Sad, Serbia

Abstract

In this paper, it will be discussed about economic development of former Yugoslav countries before and after the war (1990-1995) in those countries. Before the war, Socialist Federal Republic Yugoslavia has performed well until death (1980) of Yugoslavian leader Tito. The peak of living standard in Yugoslavia in that time was in 1979, with Gross domestic product per capita converted in 2013 year value of money was 10,090\$. Many citizens in SFRY remember that period as "old good days", but there was significant disparity in GDP per capita between six republics. GDP per capita in economically strongest republic Slovenia was higher than GDP per capita in weakest country Bosnia and Herzegovina for 191.3%. After Tito's death SFRY was performing constant negative growth. After the war, six republics left into transition process which has resulted with private owned economy with concept of liberalism. Nowadays, highest average GDP in those countries was in 2008, year before than world economic crisis came, with value of 11,064 converted \$ and in 2013 it was 9,174 converted \$.

Keywords: economic development, war, GDP per capita, real growth, living standard.

JEL classification: C10, O4, P52

Introduction

Socialist Federal Republic Yugoslavia (SFRY) consisted of six republics: Bosnia and Herzegovina, Croatia, Macedonia, Montenegro, Slovenia and Serbia with two autonomous provinces: Vojvodina and Kosovo. This country had state owned economy with interventionism as a concept. As central-planned economy it had some advantages and disadvantage. Nowadays, there is accepted attitude that market is more efficient than central-planned economy. But, it was country with 21 million people and it is well known that country size and openness of economy is reciprocally, and that shows one very important advantage of previous system. Today, there are many citizens who call that period "old good days". Also, there are other people who argue that it was an inefficient system. It is crucial to distinguish what are objective and what are subjective criteria of the assessment.

The problem of this research is disparity in opinion what period has better economic development, before or after the war. This problem may be solved with application of objective criteria for measuring of living standard. In accordance to the problem, it will be used comparative analysis through comparison during the time and comparison with other countries, as subject of research. Main goal of this paper is to offer evaluation of existing and previous level of living standard in former Yugoslav Countries, as very important factor of economic development. This means evaluation of effects of transition process on living standard of former Yugoslav countries. This result could be used for creating new strategies of development. Main Hypothesis, in this paper, is that concept of liberalism in small former Yugoslav countries, after the war, results with incompetent economies what causes lower living standard in this countries.

On the beginning of the paper, some opinions and research on discussion "Socialism vs Capitalism" will be presented. Main part of paper will be directed to evaluation of real GDP for former Yugoslav republics and selected world countries and regions in context

of real growth comparison. Comparison will be carried out on two levels. First level of comparison relates to international level, where average GDP in former Yugoslav republics will be compared with GDP of selected countries. Second level of comparison relates on comparison between former Yugoslav republics. Based on results of comparisons it will be concluded what are effects of Tito's death and economic transition on real GDP of former Yugoslav republics.

The Socialism or the Capitalism in post-communist countries

There are many authors who tried to evaluate which system is more efficient, but all they had different attitude and consequently different results. In most of the literature of modern economy it's argued that market based economy is more efficient. There is very logical explanation – central planned economy is based on government's plan what will be produced and in what quantity. This concept doesn't respect consumer's needs. A result of this situation is that we have some product which nobody wants to buy and other products which everybody wants to buy, but can't. This is denied with 6% average GDP growth rate in 60s (Estrin, 1991). Another disadvantage of the socialism is that workers are paid in dependence to participation beside performance. On the other hand, the socialism stimulates equality. In the capitalistic system, there is the market as fundament of the economy. Many authors argue that the capitalism stimulates efficiency, but it is in short-term and medium-term, in long-term it is arguably. The explanation for this opinion is that in first years of the capitalism there was high level of equality as heritage of the socialism and through stimulating of efficiency economy grows. Same analogy can be used for medium-term. In long term, marginal utility of efficiency decreases because inequality increases and becomes more important. In many countries now it is shift from medium-term to long-term because inequality is very high. By journal *The Economist* top 0.1% of people controls same amount of household wealth as bottoms 90%. In the same direction goes research by Christian Bjorskov and Martin Paldam who present citizens orientation between capitalism and socialism in their paper *The Spirit of capitalism and socialism – A cross-country study of ideology* (2009). Adjusted score of orientation in post-communist countries in 1990, 1995, 2000 and 2005 was 18, 0, 7 and -8, respectively. This score is defined for range between -100 and 100. Score -100 means totally oriented country to socialism/communism whereas score 100 means absolute orientation to capitalism. Their result says that in 1990 post-communist countries preferred capitalism, whereas in 2005 they prefer communism what is in accordance to thesis that capitalism is not efficient in long-term. In SFRY communism applied after World War II, in 1947 had 1.1 million workers in industry which increased to 6.3 million in 1985 when the state controlled social sector employed 98 percent of the total workers (Gundogan, 2009). In 1980, federal units of Yugoslavia were divided into two groups by unemployment. Less developed federal units were: Bosnia and Herzegovina (16.6), Macedonia (27.9), Montenegro (17.5) and Kosovo (39.0). Developed federal units were: Slovenia (1.4), Croatia (5.7.), Serbia – proper (18.9) and Vojvodina (14.4). Where results in brackets presents unemployment rate (Woodward, 1995).

Methodology

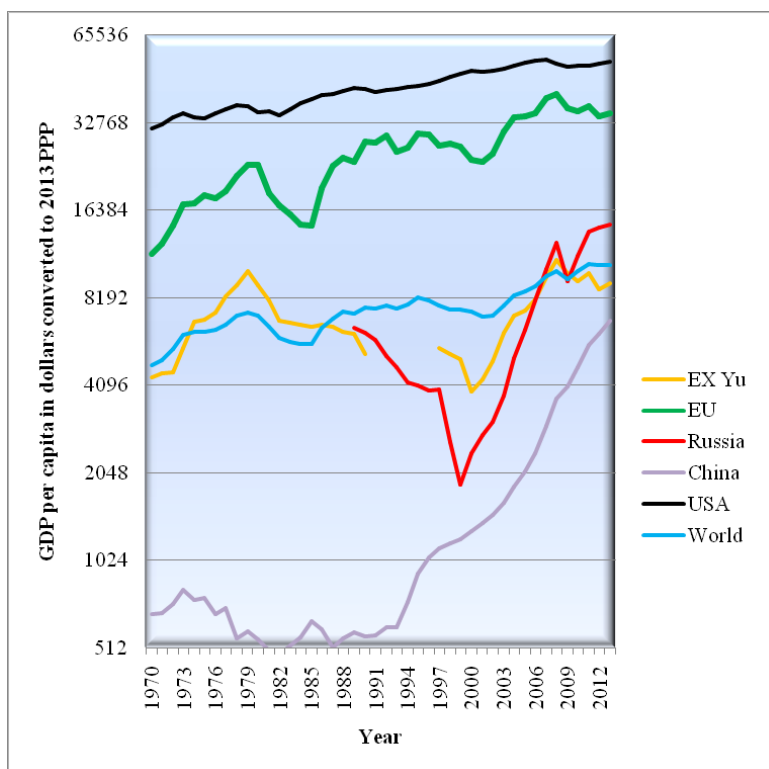
Methodology used in the paper is based on comparative analysis, which will be carried out between former Yugoslav republics, on average, and selected world countries on the first level. On the second level comparison will be done between former Yugoslav republics, mutually. The key indicator of economic development is real Gross domestic product per capita, and it will be used for comparison through the time. As a level of development of former Yugoslav republics will be used pondered mean of GDP per capita, what will be based on WB data (for years after 1990 in case of former Yugoslav republics). For years before 1990, population of former Yugoslav republics in 1990 will be

taken as ponder, whereas data of GDP per capita will be based on analysis of Ivan Kushnir. It is not possible to compare GDPs per capita in different currencies, because of that it will be calculated in USD. Problem of calculation of real GDP per capita will be solved with conversion value of GDP per capita in certain year to value of dollars in 2013. This can be done in two steps. Firstly, it is necessary to convert GDP to dollars by existing exchange rate. Secondly, GDP in dollars is nominal GDP yet, because of that it is necessary to isolate price impact on GDP level by correction with dollars PPP conversion factor. The factor is developed by Robert Sahr (2013) and it shows how much dollars in certain year have same purchase parity as one dollar in 2013. GDP per capita in converted dollars is approximation for real GDP per capita, because it respects only prices in USA, and don't follow changes in real exchange rate in Yugoslav countries. One more disadvantage of inflation measurement is that shows change in average paid price and it is well known that prices have tendency to rise, but statistics show it larger than it reflect on living standard because technologically new products cost more than technologically older products, but statistically it is treated as same product.

Results

GDP per capita in converted dollars to 2013 for chosen countries is shown on Figure 1. On Figure 1 we can see that data about GDP per capita of Yugoslav countries are not available for years between 1990 and 1997.

Figure 1
GDP per capita in dollars converted to 2013 PPP



Source: Author's illustration

Also Russian Federation was formed in 1990, and there is not available data for Russia before 1990. Total percentage change in GDP per capita in converted dollars of Former Yugoslav countries, European Union, China, United States of America, World for period 1970-2013 were: 111% (from 4353 to 9174 converted dollars), 205% (from 11594 to 35417 converted dollars), 917% (from 680 to 6807 converted dollars), 69% (from 31419 to 53042 converted dollars) and 121% (from 4798 to 10613 converted dollars), respectively. Data shows that only USA had lower percentage change than Ex-Yugoslav countries, whereas

China performed best. Also, former Yugoslav countries had highest coefficient of variance (446%). For SFRY important year is 1980, when died its leader Tito. On Figure 1 we can see that peak of GDP per capita in converted dollars was in 1979. Total growth percentage for same countries for period after Tito's death was: -9.1% (from 10090 to 9174 converted dollars), 41.5% (from 23491 to 35417 converted dollars), 1065.2% (from 578 to 6807 converted dollars), 45.7% (from 43087 to 53042 converted dollars) and 50.8% (from 7284 to 10613 converted dollars), respectively. This data shows that 33 years after Tito's death weren't enough to recover.

In Tito's Yugoslavia there was significant inequality between six republics, what is shown in Table 1.

Table 1

Index of GDP per capita in converted dollars with GDP of BH as base

Index/Country	BH	SRB	CRT	SLO	MNG	FYR M	Average
BH=100; 1981	100.0	136.0	187.9	291.3	114.8	103.2	150.6
BH=100; 1989	100.0	141.9	206.2	362.9	115.5	99.7	163.7
BH=100; 2013	100.0	136.3	291.7	499.7	152.5	103.8	196.8

Source: The Yugoslavian retrospective (Szayna, 2000) and author's calculation

In 1981 lowest GDP per capita in converted dollars had Bosnia and Herzegovina, followed by Former Yugoslav Republic of Macedonia, Montenegro and Serbia. Average of those countries was higher for 50.6% than Bosnian GDP per capita. The strongest economy was Slovenia with GDP per capita which is higher than GDP per capita of Bosnia and Herzegovina for 191.3%. In 2013 Bosnia and Herzegovina was the weakest economy and Slovenia strongest economy, too. In period after Tito's death Slovenia, Croatia and Montenegro prospered relatively to Bosnia and Herzegovina, at the end of the period Slovenia had higher GDP per capita for 400% than Bosnia and Herzegovina.

Table 2

Index of GDP per capita with 1981 as base

Index/Country	BH	SRB	CRT	SLO	MNG	FYR M	Average
1981=100; 1989	70.6	73.7	77.5	88.0	71.1	68.3	76.8
1981=100; 2013	87.6	87.8	136.0	150.3	116.3	88.1	114.5

Source: Authors calculation

Table 2 shows index of GDP for six former Yugoslav republics where GDP per capita in converted dollars of Bosnia and Herzegovina decreased to 2013 for 12.4%, Serbia 12.2% and Former Yugoslavian Republic of Macedonia 11.9%. However, Slovenia prospered for 50.3%, Croatia 36% and Montenegro 16.3%.

Discussion

On Figure 1 we can see that only USA has performed relatively worse than former Yugoslav countries, but in absolute numbers USA has performed better. Also, we can see that GDP of SFRY had been above World's GDP in 1980, whereas it was opposite in 2013. Conclusion from this figure is that SFRY and its countries, in average, had had serious problems in period after Tito's death. Tables 1 and 2 consider effects on GDP of former Yugoslav countries individually, in period after Tito's death. This result confirms sentence "Old good days" which is related to 80's, because SFRY was more developed country in 80's than its countries on average, today. Former Yugoslav countries haven't prospered on average from 80's, but it shouldn't be same for every country, individually. Table 1 suggests that Croatia, Slovenia and Montenegro have performed above average after 1981. This means that development gap between those countries has increased. This is confirmed with results in Table 2, where we can see that Croatia, Slovenia and Montenegro prospered after 1981, whereas Bosnia and Herzegovina, Serbia and Macedonia slumped after 1981. In accordance to this result, it is correct to say that efforts of Slovenia and Croatia, for independence, were effective. It is advisable to

discuss if prosperity of Slovenia and Croatia is consequent of independence or cause of its efforts. On the other hand, GDP of Slovenia and Croatia had decreased least in period 1981-1989, what suggest that growth of GDP isn't related only with independence.

Conclusion

Through results we could see that all former Yugoslav republics, on average, in period 1970-2013 increased living standard for 111 %, but in period 1980-2013 living standard decreased for 9.1%. This indicates that last 35 years have been period of stagnation in best case. In the last 35 years those countries have oriented to the capitalism and the liberalism what has resulted with high level of dependence to developed countries. Also in period after 1981 some countries prospered, but some of them slumped. Difference between the strongest and the weakest economy in that period has increased from 2.9 times to 5 times. Slovenia and Croatia interested to get own country before the war (1990-1995), after the war they get independence and they prospered on similar level as USA and European Union. But if we look on average, former Yugoslav republics had higher GDP per capita in converted dollars than world's average between 1973 and 1986. After that period its GDP is constantly lower than world's average of GDP, except in 2008. This means that the war in SFRY and the capitalistic system caused long period of stagnation for former Yugoslav republics on average, decline in Bosnia and Herzegovina, Former Yugoslav Republic of Macedonia and Serbia, and it caused average prosperity for Slovenia and lower prosperity for Croatia and Montenegro. Those results indicate that we can confirm the main hypothesis, on a half. Because we can say that only Slovenia prospered above world's average in period after Tito's death, all other countries have had below average results. Slovenia prospered more than other Yugoslav countries, because it is placed nearest to West Europe and it was most developed before the capitalism. It confirms thesis that the capitalism stimulates efficiency versus equality and that small opened economies are, on average, incompetent versus bigger countries. It is sure that time has gone and we can't return it. But it would be recommended if former Yugoslav countries intensified cooperation, because the war in SFRY is stimulated by foreign forces because of foreign interests what has reflected on incompetence of former Yugoslav countries. The limitations of this study are reflected in approximation of data, where real GDP is measured by deflating nominal GDP converted in dollars with inflation in USA, due omission of PPP factor for SFRY and its republics. In future, it would be interesting to distinguish effects of war and effects of economic transition on GDP of those countries.

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About the author

Saša Kresojević is a student of the fourth year at the Faculty of technical sciences of University of Novi Sad. In first four years of studies on first cycle, Saša published three scientific papers as an author or as a co-author. Focus in those papers is on improving transportation infrastructure and general economic development of Bosnia and Herzegovina and Balkan region. Author can be contacted at sasakresojevic93@yahoo.com