Regime Change in the Yugoslav Successor States

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CHAPTER THREE

The Development of Disparity

Što južnije, to tužnije. (The further south you go, the sadder it is.)

POPULAR SAYING IN THE FORMER YUGOSLAVIA

Historical Roots of Regional Economic Inequality

This chapter traces the development of economic disparity in the former Yugoslavia through time and space. The history and features of each republican economy can tell us a lot about its economic viability—not only with regard to its ability to construct a viable market economy but also in terms of its capacity to adapt to a global market given independence. Anyone who has traveled in the former Yugoslavia or who has visited its successor states cannot help but be struck by vast disparities in regional economic development. That which is immediately apparent to the casual observer is easily confirmed by a range of quantitative measures suggesting the continuation, reproduction, and intensification of a regressive north-south economic gradient over time and through regimes of differing characters. Although one of the most obvious contrasts in development exists between the lands of the former Habsburg Empire (Croatia, Slovenia, and Vojvodina) and those of the former Ottoman Empire (Bosnia and Herzegovina, Macedonia, much of Serbia proper, Kosovo, and Montenegro), the actual spatial distribution of development is more
complicated and transcends imperial, republican, ethnic, cultural, and other kinds of boundaries.

Physical geography has been one cause of regional economic disparity. There are distinct regions in the former Yugoslav lands, endowed to varying degrees with natural resources, access to water navigation, good soil for agriculture, and proximity to the prosperous economies of Western Europe. The mountainous areas of present-day Bosnia and Herzegovina, Montenegro, southwest Serbia, the Dalmatian hinterlands of Croatia, and northern Kosovo had been the most isolated, unfertile, and least developed. These areas were historically the greatest sources of out-migration. The Adriatic coastlands (especially Dalmatia) belong geographically to the Mediterranean world and benefited from trade and technological transfer, and much later, tourism, but also suffered from poor soil, lack of rainfall, and lack of access to navigable rivers to facilitate trade with the inland areas. Central Serbia, parts of Kosovo, and Macedonia are endowed with natural resources and good agricultural land, and yet remained undeveloped due to poor economic planning as much as geographical isolation. Some mining and heavy industry were developed there under Yugoslav communism. Vojvodina, to the north of Central Serbia, as well as the lands of present-day eastern Croatia (Slavonia), are fertile agricultural lands and served as the “breadbaskets” of both the first and second Yugoslavia, though their economic well-being was historically subject to fluctuations in the market demand and price of agricultural products. The Croatian and Slovenian hill lands were the most developed region of the Yugoslav lands, with skilled labor and a tradition of production in areas such as ironworks, machinery, textiles, furniture, electrical appliances, building materials, and food processing. This region benefited historically from proximity to West European capitals and an extensive transportation infrastructure, constructed under the Habsburg Empire, that further facilitated trade with the West.

Habsburg and Ottoman rule magnified the existing economic disparities. The Austro-Hungarian Empire was far wealthier and more technologically advanced than its Ottoman counterpart. Differences in patterns of rural organization were also critical, as the overwhelming majority of the Yugoslav peoples were peasants. In all of the former Habsburg territories (Croatia, Slovenia, Vojvodina) agricultural landholdings were larger and more efficient compared to those in the former Ottoman territories, and there were well-organized cooperatives to coordinate production and distribution and provide credits to farm-
ers at single-digit interest rates (Singleton 1986: 155). By contrast, farmers in the Ottoman Empire had no such organizations, and when economic crisis and impoverishment struck the agricultural sector in the first Yugoslavia, indebted farmers in places such as Bosnia and Herzegovina were forced to borrow at rates of interest approaching 200 percent (Singleton 1986: 155).

The experience of World War I further reinforced the disparities in development, as its effects were far less devastating for Slovenia and Croatia than for Serbia, Montenegro, and especially Bosnia and Herzegovina, where there were enormous casualties and destruction of infrastructure. After World War I, the first Yugoslavia (1918–1941) largely failed as a developmental state. Its economic policies consisted of rapid but limited and highly protected industrialization, largely financed by foreign capital, which hurt the average consumer and made the Yugoslav economy highly dependent on external capital and yet not integrated with Western markets (Pleština 1992: 11). This foreign-owned or dominated industrialization relied on cheap local labor and emphasized the extraction of raw materials in the southern regions and processing and manufacturing in the northern regions, thus continuing the legacy of differentiated development (Pleština 1992: 13). As a result, between 1918 and 1938 Slovenia developed two times faster than Serbia, six times faster than Bosnia and Herzegovina, and twenty-five times faster than Montenegro. Infrastructure, especially transportation, was largely neglected, leaving the poorer regions with primitive Ottoman-era roads and few rail links. The agricultural sector was also ignored, such that a full-scale “scissors” crisis developed in the late 1920s in which widening prices between agricultural and manufactured goods left many peasants with enormous debts. This crisis was exacerbated by the dramatic fall in world demand for agricultural exports in the 1920s (Woodward 1995b: 23). Given that the economies of the southern regions were almost entirely dependent on agriculture, the crisis was particularly acute there, further impoverishing an area that was already backwards relative to the northern regions. These stark disparities among the first Yugoslavia’s regions can also be illustrated through a comparison of illiteracy rates. Less than 20 percent of the population of Bosnia and Herzegovina and Macedonia was literate, while in Serbia only around 30 percent could read and write. The difference between Slovenia, where the literacy rate was above 90 percent, and Croatia-Slavonia, where it was under 70 percent, was also significant.

The economic failures of the first Yugoslav government, writes Pleština,
were “aggravated by the bureaucratic mentality of civil servants who viewed the state as a means for private accumulation and by the existence of a quasi-capitalist class relying on state contracts, rather than on the dynamic, self-propelled capitalist entrepreneur whose drive for industrialization might have alleviated peasant poverty through industrial (urban) employment” (1992: 12).7

The increasing economic stagnation and dependency of interwar Yugoslavia led to political chauvinism, division, and ultimately, chaos. In the end the royalist leadership in Belgrade undermined federalism, independent political parties, and other democratic institutions and instituted a centralized absolutist regime in their place. Conflicts between Serbs and Croats increased, and with these conflicts came heightened political repression facilitated by the apparatus of a police state. The first Yugoslav experiment had resulted in an illegitimate state with large inter-regional disparities and hostilities. Such hostilities and continuing economic immiseration led to the rise of political radicalism, most notably the Četnici in Serbia and the Ustaše in Croatia, who were subsequently coopted in World War II by external powers with their own imperial agendas for the Balkan region.

For a state that was already underdeveloped, the effects of World War II were catastrophic, leaving Yugoslavia even less industrialized and more rural than when it entered the war (Woodward 1995b: 63). Foreign occupation and civil war led to disease, a refugee crisis, homelessness, and the death of 11 percent of the prewar population. The economic effects were devastating, particularly in the southern regions, where fighting had been heavier.8

Thus, all the Yugoslav lands were very undeveloped compared to the lands of Western Europe. Their backwardness was deepened by the experience of imperial tutelage, war, and economic mismanagement, and they remained essentially poor peasant societies until the victorious communists began an intensive industrialization drive after World War II and formation of the second Yugoslavia (1945–1991).9 The overall poverty of Yugoslavia notwithstanding, disparities in development among the regions were quite evident when Tito’s communists consolidated their power in the mid- to late 1940s. Figure 3.1 provides a telling picture of early communist regional developmental differences through indices of per capita regional products.10 In 1947, Kosovo’s per capita regional product was less than half the average of the newly formed socialist federation, while Slovenia’s was 62 percent higher than this average.

The stated goal of the communist leaders was to rectify these disparities and promote a more equal mode of development.11 However, as the next sec-
tion will show, their efforts largely failed. Indeed, the disparities increased between 1945 and 1989, leaving each republic and region with very different economic prospects on the eve of their independence.

**Efforts and Consequences of the Yugoslav Communists to Combat Regional Inequality**

Prewar levels of production were attained fairly quickly through a combination of social mobilization by the newly formed communist government and massive income transfer from abroad in the form of reparations from

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*Figure 3.1. Regional Inequalities in Yugoslavia, 1947 (per capita regional product)*


*Note:* Index, Yugoslavia = 100. “Serbia” refers to Serbia proper, without Vojvodina and Kosovo.
Hungary, Italy, and Germany and aid from the United States and the United Nations (UN) (Pleština 1992: 15). Although the federation-wide economy rebounded in terms of total production, the problem of uneven regional economic development remained as stark as ever, and as a whole Yugoslavia was still a very poor country.

The problem of regional disparity, notes Bombelles (1991: 440), was recognized and specifically addressed as early as 1946 by Boris Kidrič, the Politburo member and president of the Economic Council and Chairman of the Federal Planning Commission, who said that “uneven economic development [is] one of the great difficulties in the current process of development . . . [and that] the principle of brotherhood and unity, which is the basis of our federation, categorically demands elimination of this unevenness.” In official Yugoslav policy, the “undeveloped states” came to be known as less-developed republics and regions (LDRs), including Macedonia, Bosnia and Herzegovina, Montenegro, and Kosovo. Serbia proper, despite its relative poverty, was not included among the LDRs for various political reasons. The developed regions (DRs) thus included Serbia proper and its northern province, Vojvodina, as well as Slovenia and Croatia.

The nature of the policy strategies adopted by the communist authorities to even the balance of regional development is key to understanding not only why the overall program of regional development failed but also why the less developed republics and regions were left with unfavorable economic legacies despite absolute gains in modernization and industrialization. A Stalinist approach to large-scale industrialization in sectors such as metallurgy, steel processing, and power was adopted from the outset. The construction of such heavy industries and other large-scale public projects was enabled by mass mobilization and the suppression of prices for raw materials and agricultural products, which had a decidedly negative impact on the regions and republics that provided most of these goods: namely, the LDRs and Vojvodina. At the same time, Slovenia, the most developed republic, received a highly disproportionate amount of investment, as it was thought that this would maximize output. Such overtly discriminatory policies were explained to Pleština as necessary for national security at a time when the Soviet threat loomed large because of Yugoslavia’s abrupt split with the USSR in 1948. Thus, the only special provision made for the LDRs during the first Five-Year Plan (1947–1952) was the granting of special tax relief and some grants-in-aid (Pleština 1992: 21–28).
The DRs had a great structural advantage. Slovenia, Croatia, and to a much lesser extent parts of Serbia proper were already industrial areas of Yugoslavia before the war. The workers in these areas were more educated and efficient, steeped in the industrial tradition, and in general more receptive to the demands of modernization (Pleština 1992: 44). Due to the spatial distribution of the fighting, these prewar industries were much less likely to have been damaged if they were located in Croatia and Slovenia, and it was also these same industries that were initially targeted by the communist regime to be expanded or converted. The investments they obtained early on to expand production came at the expense of development funds for the LDRs, so the regional inequity was widening just as the country reached a critical juncture with opportunities to pursue regional development, as table 3.1 shows.

The initial Five-Year Plan was followed by the announcement of what was to become the internationally heralded Yugoslav “National Road to Socialism,” whose cornerstones included social rather than state ownership of the means of production; worker management; decentralization of political and economic decisions from the federal government to republics, communes, and enterprises; and a greater reliance on market signals as guides to resource allocation. These were codified in constitutional changes in 1953 and, along with non-alignment in foreign policy, became the basic principles of Yugoslav communism (Pleština 1992: 27).

Yet, even under decentralization the primacy of geopolitics continued to compel policymakers to emphasize overall, rather than regional, development, which in practice meant continued economic discrimination against the LDRs and a flow of resources into heavy industrial projects rather than infrastructure and other foundations of long-term development. The decentralization also signaled the beginning of what was to become a continuing pattern of political jockeying for the economic interests of one’s republic or region, a pattern in which the DRs often emerged victorious since they could legitimately argue that investments in their areas would yield maximum returns. Montenegro was an exception among the LDRs, effectively using its political leverage to win economic concessions in inter-republican battles even though investment there continued to produce poor results (Pleština 1992: 33).

By the mid- to late 1950s, the geopolitical threat had disappeared with Soviet-Yugoslav rapprochement, the inflow of aid from the United States, and the formation of the non-aligned bloc, and yet no important shift in policy toward
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Indeed, the policy of under-pricing raw materials continued into the late 1960s (Pleština 1992: 32–33). This did not mean that there were no industrial investments in the poorer republics—in politically powerful ones, such as Montenegro, money flow into all kinds of projects, from highways to steel mills. The problem with these investments was that they were often an irrational use of scarce material resources, such as the “political factories” that began to appear in the 1950s. Other kinds of projects—such as the massive investment in military industries in Bosnia and Herzegovina—may have raised the aggregate growth figures but also did little in terms of establishing a viable long-term base for economic development. The legacy that these political projects bequeathed to the LDRs is one of inefficient, loss-making enterprises that could hardly be used to support the economy of a newly independent state, much less compete in the global marketplace.

The second Five-Year Plan yielded impressive results in the federal economy and at last some advantages for the LDRs, especially Macedonia and Kosovo, which were provided with a guaranteed volume of investment for development projects chosen by the center.13 Still, a satisfactory plan for their development did not emerge. The lack of a comprehensive plan meant that the investment projects that were approved were often political in nature, and due to a soft budget constraint the state propped up many failing enterprises in LDRs for years. Alternatively, investment in the LDRs was channeled to defense industries, which had neither a productive use nor a consumption bene-

<table>
<thead>
<tr>
<th>Republic or region</th>
<th>Industrial workers (per 100)</th>
<th>Agricultural population (index)</th>
<th>Completed high school (%)</th>
<th>Less than 3 grades of schooling (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Yugoslavia</td>
<td>33</td>
<td>100</td>
<td>6.6</td>
<td>42.1</td>
</tr>
<tr>
<td>Slovenia</td>
<td>77</td>
<td>68</td>
<td>11.2</td>
<td>15.2</td>
</tr>
<tr>
<td>Croatia</td>
<td>40</td>
<td>93</td>
<td>7.3</td>
<td>30.5</td>
</tr>
<tr>
<td>Vojvodina</td>
<td>29</td>
<td>103</td>
<td>7.5</td>
<td>28.4</td>
</tr>
<tr>
<td>Serbia</td>
<td>27</td>
<td>110</td>
<td>7.0</td>
<td>44.5</td>
</tr>
<tr>
<td>Bosnia and Herzegovina</td>
<td>31</td>
<td>102</td>
<td>4.1</td>
<td>67.2</td>
</tr>
<tr>
<td>Macedonia</td>
<td>16</td>
<td>103</td>
<td>3.8</td>
<td>50.7</td>
</tr>
<tr>
<td>Montenegro</td>
<td>0.2</td>
<td>100</td>
<td>5.3</td>
<td>40.9</td>
</tr>
<tr>
<td>Kosovo</td>
<td>16</td>
<td>119</td>
<td>2.3</td>
<td>71.2</td>
</tr>
</tbody>
</table>


*Serbia proper, without Vojvodina and Kosovo.
fit. Added to this was the continuing lack of equitable valuation of the LDR’s products, and the failure of the state to promote development in areas where the LDRs would have the greatest comparative advantage—such as the labor-intensive processing and manufacturing industries. Finally, agricultural investment during this period benefited the DRs much more than the LDRs because it encompassed only the social sector, much more prevalent in the former than the latter (Pleština 1992: 49–50). Meanwhile, regional inequality continued to increase.14

Improvements in the infrastructure of the LDRs did occur, but only after the Federal Fund for the Accelerated Development of the LDRs was put into place in 1965–66 as part of the third Five-Year Plan (Pleština 1992: 40–41). The source of funds for this new development agency was a special tax on fixed assets of all firms in Yugoslavia (Pleština 1992: 73), and part of the strategy entailed sending economic advisors from the developed north to the underdeveloped south. Still, this constituted limited help for the LDRs.

The Development Fund never got off the ground, mainly for political reasons, among them the mutual suspicion between officials in the LDRs and economic experts from DRs sent as advisors to consult in the south. From the perspective of the LDRs, the DR experts had ulterior motives (such as making sure that factories that might compete with DR enterprises were not built and enriching themselves on state expense budgets) and were not genuinely interested in promoting development in poorer regions, while the DR advisors saw their colleagues in the LDRs as corrupt and uneducated. The Development Fund could not step in to help quell this mutual suspicion since it had limited powers to monitor the management of funds once they were distributed (Pleština 1992: 80–85). An analysis of the infrastructure investment in each of the republics and autonomous provinces during this period of reform shows a glaring movement away from equalization. During this period, the LDR definition shifted to include less-developed parts of Croatia, Bosnia and Herzegovina, and Serbia, and more measures to promote decentralization were enacted. Ironically, it was precisely decentralization that prevented more development because it led to continual political deadlock. As the republics and regions gained more autonomy, their representatives in federal organs acted increasingly as interest groups, fighting for the narrow economic interests of their respective “constituencies.” In these battles, the interests of DRs and LDRs naturally diverged, with the LDRs generally favoring centralization and statist policies and the DRs pushing for liberalization and greater
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decentralization. With the failure of jugoslovenstvo (the effort to encourage a supra-national Yugoslav identity)\textsuperscript{15} and given that republican and regional boundaries overlapped with ethnic boundaries, these intra-federal political battles over economic issues took on an increasingly ethno-national tone in the late 1960s.

However, in the 1960s political and economic interests did not always coincide with ethnic boundaries or identities, and coalitions between DRs and LDRs were formed at certain political junctures. Confronted with the fear of Serbian domination, Croatia and Slovenia were able to convince Bosnia and Herzegovina and Macedonia to join them in a fight against centralization (Pleština 1992: 66–67), allowing them to prevail. Investment was increasing in the LDRs, but there was a negative correlation between the size of inflow and efficiency of capital use (Ocić 1998: 5).

All the talk of economic reform and development did much to raise expectations among ordinary people. When these expectations were not realized, social unrest appeared. In 1968, strikes by students in Belgrade against conditions at the university and high unemployment spread to encompass other quality of life issues. At the end of the 1960s there were also strikes and riots organized by Albanians in northwest Macedonia, no doubt a product of feelings of economic deprivation. The unrest culminated in the Croatian rebellion (Hrvatsko Proljeće, “Croatian Spring”) of 1971, which initially was based on grievances arising from perceived economic discrimination and resulted in a crackdown by Tito on reformist elements in the League of Communists of Croatia.\textsuperscript{16}

The 1971–1975 period was witness to yet another Five-Year Plan (the fifth), which also promised to deal with the problem of regional inequality. As in previous plans, the Development Fund was to be the principle means of intervention. However, the less developed areas of developed republics and regions were no longer under the Development Fund’s jurisdiction; they were now to be under the supervision of their respective republics and regions. Kosovo was now given special consideration and generous terms of repayment given its very low level of development. The reforms did have a positive impact on the growth of the LDRs—in fact, the growth was not only higher than it had been under the previous Five-Year Plan, it was also marginally higher than growth rates in the DRs (Pleština 1992: 96–97). Yet, relative to population, the DRs continued to receive more investment than the LDRs. Moreover, investment did not reflect past performance, so that Montene-
gro continued to receive the highest levels of investment despite poor returns, which Pleština (1992: 100) attributes to the over-representation of Montenegrins in key party organs. This was true for other forms of aid, such as development credits from the World Bank. Thus, politics, and not economic rationality in terms of optimum use and allocation of resources to promote regional development, governed development policy in the LDRs, and the consequences for remedying disparities between developed and undeveloped republics and regions were decidedly negative. Even when enterprises were built and other forms of investment took place, the LDRs continued to suffer from structural problems such as a low level of education and a neglected agricultural sector. The return of many guest workers from Western Europe in the mid-1970s in response to a continent-wide recession hurt the LDRs (as well as Croatia), as many of these workers came from the poorer regions and republics and their jobs abroad provided a critical safety valve for unemployment, while their remittances of hard currency were critical for republican budgets and family income. In general, external economic shocks, such as Yugoslavia’s sharply increasing balance of trade deficit, were much more acutely felt in the LDRs than the DRs.

The sixth Five-Year Plan, implemented in the late 1970s, relied on the Development Fund as the main means of intervention but included new measures, among them a plan to integrate and coordinate enterprises among republics and regions that ultimately failed. Efforts at regional development were increasingly rendered futile by a growing economic crisis. Yugoslavia’s foreign debt skyrocketed, reaching $18 billion in early 1980. The Gastarbeiter continued to return in record numbers, swelling the ranks of the unemployed. Personal incomes began to decline, for the first time in nearly three decades (Pleština 1992: 106). Again, this overall economic crisis was felt most strongly in the LDRs. Growth did indeed occur in the LDRs under the sixth Five-Year Plan, though instead of the expected 20 to 25 percent above the Yugoslav average, growth only exceeded this average by around 7 percent (Pleština 1992: 114). The disparity between the DRs and LDRs, however, failed to narrow. Subsequent efforts in the last ten years of the SFRJ to promote regional development also failed, for all of the reasons cited above, as did the last-ditch attempts to introduce market mechanisms into the economy. Thus, writes Pleština (1992: 124),

The result for regional development was that 35 years after the [Communist Party of Yugoslavia] had come to power, its goal of bridging economic inequal-
The Development of Disparities between the developed and the less developed republics and regions had not been achieved. The effect on the political stability of the country was becoming palpable. Ten years after the Croatian crisis shook the Yugoslav regime, economic grievances once again took on a violent ethno-nationalist manifestation. In the decentralized, post-Tito Yugoslavia of the early 1980s, where pursuit of economic interests had acquired de-facto legitimacy these proved much more difficult to contain and, ultimately, impossible to subdue.

It is important to emphasize that despite irrational or even discriminatory patterns of regional development policy, large amounts of money were transferred from the richer north to the poor south, as demonstrated by Bombelles (1991). These transfers came at an expense, not only to the net donor republics but also to the economy as a whole. However, the reason why these investments were not yielding returns in the LDRs was quite evident by the 1980s. Namely, the Development Fund was financing a large number of *promašene investicije*—“bad investments.” This term, however, is really a euphemism for the corrupt political projects of local party machines that lined the pockets of a select group of apparatchiks but did little to promote overall development of the regional or republican economy. “Bad investments” increased as economic decline deepened and competition for resources and jobs became fierce. At the end of the 1980s, the media, such as the Belgrade weekly NIN, were unabashedly reporting on the scope and substance of some of these irrational projects (Bombelles 1991: 459). Among them were factories that were constructed but never started production, factories that were only partially completed and then abandoned, and factories that were operating at a fraction of their capacity. The Development Fund tolerated, or had to tolerate, the misdirection of its resources since it had no control of these funds once they were allocated to the regional or republican level. Although the healthier economies of the DRs had “bad investments” of their own, these projects did not have nearly as negative an impact as they did in the LDRs, where the legacy of clientelism and corruption carried on into the post-communist period, now reproduced in ethno-national, rather than simply political, ties.17

Thus, during the communist period, the economic disparities between the DRs and LDRs had increased, as shown in table 3.2. The DRs became richer, while the LDRs became poorer. Croatia’s per capita gross regional product (GRP) increased by 12 percent relative to the Yugoslav average, while Kosovo’s GRP fell from half the Yugoslav average to almost one third of that aver-
age. Although the Yugoslav economy had experienced a major transformation, by the 1980s inter-regional differences were as great as they had been historically, and in some cases even greater.

Pleština concludes her study of regional development in communist Yugoslavia by noting that increasing decentralization simply could not be reconciled with the desire to bring the LDRs up to par with the DRs. The vast disparities in development among the republics and regions created equally divergent interests, and the highly decentralized institutional structure enshrined in the 1974 constitution meant that politics began to revolve exclusively around republican interests. The particularization of interests, in turn, was given ideological legitimacy by Edvard Kardelj, architect of Yugoslavia’s economic system, in the late 1970s. Federal institutions had become forums in which to pursue and preserve the narrowly defined economic interests of one’s republic or region.

In this pursuit, the developed regions were automatically favored in the increasingly market-oriented Yugoslav economy. The institutions themselves were designed such that federal representatives directly depended on the regional organizations that elected them, and this resulted in their acting almost exclusively on behalf of their respective regions, rather than as representatives of the federation as a whole. This, in turn, led to the “parcelization” of the federation, with negative effects for overall development, especially for the development of the LDRs. The result for the LDRs was to further relegate them to a permanently disadvantaged position. On the one hand, decentralization and the introduction of market mechanisms had created a situation in

<table>
<thead>
<tr>
<th>Republic or region</th>
<th>1947</th>
<th>1965</th>
<th>1975</th>
<th>1986</th>
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</thead>
<tbody>
<tr>
<td>Slovenia</td>
<td>162</td>
<td>177</td>
<td>201</td>
<td>179</td>
</tr>
<tr>
<td>Croatia</td>
<td>105</td>
<td>120</td>
<td>124</td>
<td>117</td>
</tr>
<tr>
<td>Vojvodina</td>
<td>100</td>
<td>122</td>
<td>121</td>
<td>133</td>
</tr>
<tr>
<td>Serbia(^a)</td>
<td>101</td>
<td>95</td>
<td>92</td>
<td>94</td>
</tr>
<tr>
<td>Montenegro</td>
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<td>71</td>
<td>70</td>
<td>80</td>
</tr>
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<td>Bosnia and Herzegovina</td>
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</tr>
<tr>
<td>Kosovo</td>
<td>49</td>
<td>39</td>
<td>33</td>
<td>36</td>
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</tbody>
</table>

Note: Index, Yugoslavia=100.
\(^a\)Serbia proper, without Vojvodina and Kosovo.
which the economically weaker and less competitive LDRs were unable to draw the capital necessary for investment or to find markets for their products. At the same time, the ideological justification of the pursuit of particular interests condoned this situation in which they were less competitive (Pleštica 1992: 113).

The regional pursuit of scarce economic resources was, in the final analysis, the key element in the coalition building and the most important determinant of political action. Although the coalitions varied over time and often transcended ethno-nationalist interests, economic grievances began to be increasingly articulated in the language of ethno-nationalism, especially during the period of severe crisis. By the end of the 1980s competition for scarce resources among republics and regions became competition among political elites within these republics and regions for even scarcer resources.

The Economic Crisis of the 1980s and Its Consequences for the Republics

The Roots of the Crisis

Despite its failure to make the regional distribution of development more equitable, communist Yugoslavia was an effective developmental state through the 1960s and, to some extent, the 1970s. Development was felt everywhere, including the poorer regions and republics, where standards of living increased dramatically with the modernization of extremely backward economies. However, even in its best days, the Yugoslav economy suffered from a range of imbalances, irrationalities, and deficiencies, which coexisted with, and in many ways were related to, the problem of regional economic inequality. Agricultural growth was sluggish despite the reversal of collectivization efforts. Unemployment was a lingering problem—it did not reach crisis levels in the 1970s only thanks to the critical safety valve provided by sending one million guest workers to advanced industrialized countries, which at its peak constituted a substantial portion of the total Yugoslav workforce. The system of workers’ self-management was largely inefficient and stimulated the inflationary economy that was needed to support it. Many large state-owned enterprises operated as monopolies with unrestricted access to capital, which was doled out according to political criteria. Punitive taxation and restrictions on inheritance discouraged private enterprise in almost all sectors other than tourism, artisan manufacture, and construction, such that
remittances from abroad continued to provide as much income as legally registered, private enterprise (Lampe 2000: 319). There was a chronic problem with investment in industries in which Yugoslavia had a comparative disadvantage as well as duplication of industries in two or more republics and regions. This last problem was intimately related to the federal structure, which had given the republics broad powers over everything from educational policy to international trade. Continuing foreign trade and balance of payments deficits drained hard currency reserves and led to giant debts. Central intervention was needed but difficult to achieve precisely because of the decentralization described in the previous section. Furthermore, divergent interests in the absence of strong central institutions meant that regions and republics had the power to block needed reforms." Members of central party organs were responsible to constituents in their home republics or regions—and were inclined to portray themselves as defenders of their respective unit’s interests against exploitation by the others.

The Effects of the Crisis

These economic deficiencies were magnified during the oil shocks of the 1970s, triggering what Lydall (1989) has called “the great reversal.” A steadily rising standard of living in previous decades had partially muted grievances even in the poorest regions and republics, but by the end of this reversal, standards had fallen so quickly and dramatically that the second Yugoslavia, its leaders, and its basic principles were rendered illegitimate. The initial response of the technocratic federal government to the looming crisis was to combat the slowdown with extensive foreign borrowing, which was made possible by the large amounts of capital flowing into Western banks from the newly formed Organization of Petroleum Exporting Countries (OPEC). The borrowing policy did manage to sustain a reasonable rate of growth for several years. But this kind of growth was unsustainable, indeed in many ways artificial. While the GNP grew at a rate of 5.1 percent, the rate of foreign borrowing was increasing at an annual rate of 20 percent (Janos 2000: 278). Yugoslavia’s economy was rapidly falling deeper into a hole of debt that helped to seal its doom. The “bubble” burst in 1979, and the following figures from Janos (2000: 278) illustrate the consequences, painfully felt in the 1980s:

• Between 1979 and 1985, Yugoslavia accumulated $25 billion in foreign debt;
During this same period, the Yugoslav dinar plunged from 15 to 1,370 to the U.S. dollar;
• Half of the income from exports went to service the debt, rendering earnings gleaned from foreign trade and tourism inconsequential;
• Real net personal income declined by 19.5 percent;
• Unemployment rose to 1.3 million job-seekers;
• Internal debt was estimated to be $40 billion.20

Thus, in the 1980s the Yugoslav economy entered a period of sustained crisis from which it never recovered. All of these downward trends were closely correlated with the regional differentiation of the economy, meaning that they were more acutely felt in the south than the north, spelling certain political trouble.

The Belgrade political scientist Vladimir Goati called the economic crisis of the 1980s the “epicenter of a society in crisis” (1989: 19; “epicentar društva u krizi”). In 1988, national income declined by 1 percent, agricultural output declined by 5 percent, unemployment stood at 16.8 percent, the inflation rate was some 340 percent, and the foreign debt had reached an all-time high of nearly $30 billion. The purchasing power of the average Yugoslav fell to the 1960 level as monthly salaries plummeted to less than 50 dollars for a factory worker and to 155 dollars for professionals (Pleština 1992: 133), leading to a sharp increase in personal debt. Pleština writes that by 1989 “chaos was the only word to describe a situation in which inflation had reached 1.5 percent a day, or more than 2,500 percent for 1989” (1992: 137). Shortages for many goods became the norm everywhere. By 1990, the economic infrastructure itself was becoming unraveled. This was most evident in the Development Fund itself, which simply ceased to function when Slovenia and Croatia refused to pay their dues. The final nail in the fund’s coffin was the emergence, at the end of the decade, of statistics showing that the development gap had increased even further in the 1980s.

Consequences for the Republics

This crisis, then, had very different consequences for each republic. Aggregate indicators actually masked the true decline in poorer regions. The economic structures of the LDRs had always been more vulnerable to recessions and were thus very badly hurt by the 1980s crisis. The effects of this crisis, combined with the structural deficiencies or advantages of each repub-
lic, shaped very different economic circumstances in each entity of the SFRJ in the late 1980s. Even in Croatia, the second most developed of the DRs, structural problems and regional poverty were exposed as a result of the crisis.

Slovenia had the most developed economy and was best able to weather the 1980s crisis. Its workers were by far the most productive and the best compensated of any other republic. Compared to the other republics, unemployment was very low and savings were high. Quite significantly for its looming independence, Slovenia had the most favorable debt situation, the highest foreign currency reserves, and the greatest potential to service its debt and maintain foreign currency reserves given its active and highly developed export sector. Croatia’s economy, albeit much more developed than the LDRs to the south, had been adversely affected by the 1980s crisis, which had exposed some serious deficiencies in its economic structure. These deficiencies included overdependence on guest workers (both as a safety valve for unemployment and as a source of hard currency remissions), poor and unproductive regions (such as the Krajina), and an uncompetitive industrial sector. The republic’s income fell such that it only marginally exceeded the national average by the end of the 1980s. The economy of Serbia was deeply hurt by the crisis, and any benefit from Vojvodina, a DR, was countered by negative effects from southern Serbia and Kosovo, both extremely poor regions whose misery only deepened in the 1980s. Bosnia and Herzegovina, Macedonia, and Montenegro were all in dire economic straits by the end of the 1980s and experienced sharp declines in living standard and high unemployment. Moreover, their weak industrial base was dominated by loss-making heavy industries and mining, which were uncompetitive in the global market.

The Problem of Unemployment and Its Regional Distribution

The deteriorating conditions of life that characterized 1980s Yugoslavia were reflected in soaring unemployment rates. In the late 1980s, the unemployment rate in Yugoslavia was over 17 percent, with another 20 percent underemployed. Unemployment, in fact, was a chronic problem in Yugoslavia. Suffice it to say, however, that unemployment, along with inflation, had reached socially and politically dangerous levels in the 1980s. Some 60 percent of the unemployed were now under twenty-five years of age and almost that same percentage had at least a secondary education. The demographic
phenomenon of a growing number of relatively educated and young segments of the population confronting a labor market with diminishing prospects was politically explosive. The lack of perceived opportunities was especially critical in shaping hopelessness and a search for new political solutions. Public opinion research conducted in 1987 found that 79 percent of the respondents doubted that there was any avenue open to escape the accumulated economic problems. Of the Yugoslav population, 84 percent felt that their economic fortunes and sense of personal security were in decline (Lampe 2000: 333–34). So the sharp rise in unemployment reflected not only a tight labor market but also a broader social crisis and the erosion of Yugoslavia’s substantial middle class, a potential core of support for liberal reform. In part owing to the growing unemployment rate, by 1984 one-quarter of Yugoslav families were living below the poverty line, and this figure was substantially higher in the LDRs (Lampe 2000: 323).

As might be expected, the regional distribution of unemployment was uneven. Even in the 1970s socially dangerous levels of unemployment prevailed in Macedonia, Kosovo, and other intra-entity regions. Riots and strikes in Kosovo in the 1980s were a direct consequence of an extremely high unemployment rate. Unemployment became a serious problem in urban centers such as Belgrade as well, where the jobless rate was as high as 25 percent in the 1980s. This was due in part to large migrations of ethnic Serbs from rural areas (Lampe 2000: 334–35). The general trend, in any case, was increasing unemployment as one moved from north to south. Thus, Slovenia had virtually full employment and was not threatened by the social instability that comes with high unemployment rates. Croatia’s unemployment rate, though at first glance relatively low, masked high levels of unemployment in poorer regions, a generally high level of underemployment, and excess labor in many public enterprises. Moreover, it did not take into account the large numbers of Croats temporarily working abroad in Western Europe. If they were added to the registered job seekers, the unemployment figures would have been even worse. In the other republics and regions, the very high levels of unemployment led to increasing calls for new political solutions.

The unemployment problem (figure 3.2) and the fall in real income that accompanied it emerged in the context of a population that was used to a relatively high standard of living, augmenting the general feeling of frustration. Many Yugoslavs, through travel or work in the West, had been exposed to high consumption standards. Unemployment was an especially sensitive
issue in terms of unfulfilled expectations since the workplace, particularly in
the social sector, was an important basis of one’s identity in the Yugoslav sys-
tem. Due to such heightened expectations, the relative psychological depriva-
tion experienced by many Yugoslavs during the 1980s crisis was deeper than
that felt by their counterparts in other Central and East European countries.

Youth unemployment was at even higher levels. In Kosovo, Macedonia,
Montenegro, and Bosnia and Herzegovina, the situation had reached cata-
strophic proportions. In these republics, high unemployment rates were
the most poignant indicator of conflicting trends in 1980s Yugoslavia, as
noted by Lampe: “rising levels of higher education and diminishing chances
for graduates to find employment.” In fact, the rise in literacy and educational
opportunities was one of the unambiguous achievements of Titoist Yugosla-
via. However, these advances were only meaningful if they led to good employment opportunities and social advancement. Such opportunities were available in the 1960s and 1970s to the parents of unemployed young people and allowed them to sustain a relatively high standard of living. This state of affairs was no longer available in the 1980s in most LDRs: the government could now promise jobs to only half of university graduates (Lampe 2000: 339–41). Again, a potential constituency for liberalism instead became a group receptive to populist themes.

Unemployment had another negative effect throughout Yugoslavia. Namely, the fierce competition for jobs and income in conditions of great scarcity was leading to an expansion of the secondary economy and corruption. Moreover, networks of corruption were increasingly based on ethnicity—as was access to state resources. The rapid modernization of the LDRs with its focus on quantity over quality created high expectations—especially given demonstration effects of living standards from the DRs and frequent promises of quick and even development—and thus, as Ocić writes, the “revolution of rising expectations” in the LDRs gave way to the “revolution of rising disappointment and frustration” (1998: 9).

A Note on Intra-republican Disparities

So far we have considered economic disparities among republics and regions, mainly because the federal Yugoslav state dissolved along republican boundaries, the bare outlines of the successor states that are the subject of this study. The exceptions, of course, were Montenegro and Serbia, two republics that stayed together in a single successor state until 2006, and Serbia’s two autonomous regions, Vojvodina and Kosovo, which lost their autonomy in the late 1980s and also remained in the common state with Serbia and Montenegro. Just as one must acknowledge the role of Kosovo’s relative poverty in shaping political developments in Serbia in the 1980s, it is equally important to consider the role of economic disparities within other republics. In fact, that official Yugoslav development policy stubbornly divided republics and regions into “developed” and “less developed” without taking into greater account intra-entity disparities also undermined the goal of equitable regional development (Ocić 1998: 1). The political significance of less developed regions within certain republics, furthermore, went beyond their relative underdevelopment, since the poorer areas often coincided geograph-
ically with large concentrations of ethnic minorities, leading to political volatility, creating a base for nationalism, and making it difficult to distinguish ethno-national grievances from economic ones. Thus, Kosovo, by far the poorest region of Serbia, was overwhelmingly populated by ethnic Albanians; the Krajina, a poor area of Croatia, had a majority of ethnic Serbs; Herzegovina, an undeveloped area of Bosnia and Herzegovina, had many Croats; and western Macedonia, also impoverished, was largely populated by ethnic Albanians. This nexus of regional poverty and ethnic unrest became salient not only in the impending conflicts but also in shaping the kinds of political attitudes that emerged in each republic in the period immediately prior to dissolution. There were also intra-republican disparities that did not correspond to the spatial distribution of ethnic groups, and yet their relative poverty led them to be both a target and source of support for radical populism, as in southern Serbia, parts of Croatia, and much of rural Macedonia.

The Dependence of the Yugoslav Economy on the Cold War Order

Patterns of regional development in communist Yugoslavia must be seen in the context of the international order. It is important to understand Yugoslavia’s special position within this order, the benefits it derived from this position, and the effects that a change in the external balance of power had on Yugoslavia’s economic and political fortunes. In addition, each republic had a different stake in Yugoslavia’s favored geopolitical position. Yugoslavia’s viability, both political and economic, was based in large part on the benefits it derived from its favorable position between “West” and “East.” This position, argues Susan Woodward (1995a: 21–46), was one of three critical “bases of stability” of the Yugoslav system. Concrete and vital economic benefits were derived from Yugoslavia’s strategic importance, and these, in turn, shaped Yugoslavia’s internal and external politics. According to Dyker, “The history of the Yugoslav economy could be written in terms of capital import.” Indeed, “in the immediate post-war period in particular, capital import provided the nexus, not only of economic evolution, but indeed of political developments too” (1990: 155). It was the promise of economic aid that initially brought Tito into an alliance with Stalin, and it was by cutting off that assistance that Stalin later sought to discipline Tito. It was the need for massive aid and “soft loans” from the United States that compelled Tito to adopt a less repressive internal order and allowed the West to maintain Yugoslav neutrality and independence in the Cold War world order (Dyker 1990: 155). After the U.S.
handouts ended, Yugoslavia repeatedly received credits from the World Bank, other international financial institutions, and consortia of private Western banks (often encouraged by Western governments), all of which provided a critical infusion of capital for infrastructure and the consumer sector. In exchange, “socialist Yugoslavia played a critical role for U.S. global leadership during the Cold War: as a propaganda tool in its anti-communist and anti-Soviet campaign and as an integral element of NATO’s policy in the eastern Mediterranean” (Woodward 1995a: 25). Furthermore, in a global economy that was governed by political, rather than economic, criteria, Yugoslavia’s “neutral” position gave it access to markets in both the advanced industrial countries of the West and the developing countries of the third and communist worlds.

The economic benefits of Yugoslavia’s strategic position had begun to decline well before the end of the Cold War, mainly due to changes in global markets. A deep recession in Western Europe sent many Gastarbeiter home, demand for Yugoslav goods in Eastern markets fell, and the supply of foreign capital dried up. All of these factors helped to precipitate the 1980s crisis, while the nature of the crisis itself exposed the extent of Yugoslavia’s economic dependence on external factors. These changes in the unforgiving global market notwithstanding, Cold War political logic prevailed and Yugoslavia still managed to receive help from the International Monetary Fund (IMF) in the form of aid and also from increased exports to the USSR and China. The continuing interest of both in maintaining Yugoslav economic viability “demonstrated the economic value to Yugoslavia of maintaining its policy of non-alignment” (Singleton 1986: 277).

However, these benefits were only sustainable so long as the Cold War, and thus the basic interests of its participants, remained intact. Everything changed with the developments in Moscow and other capitals of the Warsaw Pact in the late 1980s, and suddenly Yugoslavia lost its strategic importance to the outside world. The effect was devastating for Yugoslavia’s internal order. Two images capture the change in Yugoslavia’s relative importance: the first, while Yugoslavia was still of strategic value, of the thirty-three heads of state and sixteen heads of government in attendance at Tito’s funeral in 1980; the second, after the fall of the Iron Curtain, of federal Prime Minister Ante Marković desperately and, ultimately, futilely attempting to seek financial aid and support in the West to keep the Yugoslav federation intact in 1990, as told by Zimmermann (1996).

The Cold War was truly Yugoslavia’s lifeblood, both in terms of economic
sustenance and political legitimacy, so its demise hurt the country severely, in a much more direct and negative way than other East European states emerging from communist rule. However, the international changes had a more adverse effect on some republics than others. All the republics except Slovenia and Montenegro, for instance, benefited significantly from the export of labor and the remissions it provided. The unfinished goods and raw materials produced in the LDRs depended heavily on demand in and access to markets in the East; these sectors of the economy were inexplicably less protected than secondary industries (Pleština 1992: 70). The LDRs were much more dependent than the DRs on Western financing of domestic consumption. All the LDRs—in particular Macedonia and Kosovo—depended heavily on international aid, much of which was channeled specifically to them. The aid and conditions included priority of access to foreign exchange credits extended by the World Bank, federal assumption of repayment of foreign loans, lowering of customs duties on imports of certain products to the underdeveloped areas, provision of extra foreign exchange to industry in the LDRs, and a number of similar measures (Bombelles 1991: 465). Serbia, though formally considered a DR, derived not only economic benefits but also political prestige from Yugoslavia’s international position, especially since the capital of Yugoslavia was Belgrade. Its interest in greater centralization in part reflected this reality. In Belgrade, there was a belief that the West for its own reasons would guarantee Yugoslav independence and economic and political stability.

Slovenia and Croatia, on the other hand, benefited from decentralization when it came to independently making foreign trade deals and retaining hard currency. In other words, as the international environment and internal reforms began to push Yugoslavia to participate more fully in an expanding world economy, Serbia and other LDRs had even greater reason to push for re-centralization. This, however, was related not only to the changing international environment but also to the character of the internal Yugoslav market.

Initial economic conditions are indispensable to understanding the post-communist transitions of the four states that are the subject of this study. Very different levels of development tell us a lot about the economic viability of each republic given independence—such differences in levels of development, in turn, are a good predictor of the chances for liberalism. In brief, the
further an area was from northern markets, the existence of developed transporta-
tion networks, and the benefits of early industrialization (light manu-
ufacturing, industrial habits, and literacy) and the larger the proportion of the
population employed in agriculture, in noncreative occupations (army, secu-
rity forces, and civil service), in low wage and non-accumulative industries,
the greater was it hurt by the crisis in the 1980s and the less economically
viable it was, thereby constraining the emergence of a liberal regime. Thus,
the starting point of transition in each Yugoslav successor state was a unique
structural context that established the parameters for the subsequent regime
transition.

Economic viability, then, can be defined as the ability to sustain economic
growth and acceptable living standards at the pre-independence level after
secession. Independence meant sharp declines in living standard for parts
of the population who had come to expect better, especially compared to
their counterparts in other post-communist states. For them, the economic
decline of the 1980s and the subsequent economic shocks of independence
were an instance of “decremental deprivation,” the effects of which are de-
scribed by Ted Robert Gurr. Gurr (1970) points out that discontented people
are most susceptible to new doctrines when they do not understand the ori-
gins of their discontent and feel insecure in their social environment. The
real test of economic viability, in other words, came once the successor states
were exposed to the pressures of the post–Cold War global economy.