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## **SUMMARY**

One of the key problems Serbia is confronted with today is the absence of a comprehensive strategy for the reformation of industry and for the development of the society as a whole. Without proper solution for this problem it not possible to expect any kind of progress in the country, especially if one takes into consideration the fact that the world today, being at the verge of the new millennium, is all about globalization- globalization being the crucial planetary process which in itself is very contradictory- and that the small states find it hard to take advantage of the merits that the globalization implies and to avoid its the demerits.

Process of globalization is, in economical terms, very effective, and, observed from the social standpoint, it is quite inferior. On the one hand, we have world economy and modern technologies, which are developing incredibly rapidly, and, on the other, the ever-growing abyss between the rich and the poor. While the majority of the population of the Northern America, Japan and Western Europe lives in prosperity, half of mankind lives in poverty, and more than one third in misery. Around 800.000 people are suffering from malnutrition. Almost a billion are illiterate. A billion and a half have no drinking water, and at least two billion people still have no electricity in their homes.

On top of all this, we have the situation that the importance of the force of law is being constantly emphasized, and

very often the law of force is what is found in operation; the democracy and human rights are what the accent is being put on, while, on one side, the authoritarian world state is being created, and on the other, the number of small and weak states that function under the (official or unofficial) protectorate of the NATO keeps growing; while it is the protection of human rights that is rendered most important today, all those “humanitarian” military operations are basically all about the accomplishment of the geostrategic interests of those in power, the interests to gain control over the scarce natural resources; today fight against terrorism is being emphasized, and global terrorism of those in power legalized; small states are being punished because of their “non-cooperation” with the (questionably legitimate) international courts, while the most powerful of all states does not admit this legitimate international court, etc..

History reminds us that what is happening in the world today is not the first process of globalization. World economy got integrated even quicker at the end of the 19<sup>th</sup> and the beginning of the 20<sup>th</sup> century, when it was considered that capitalism operates as a free market economy in which nothing prevents the productive forces from developing and in which supply triggers demand and enables balance. The Great Depression, which occurred in the 1930’s, shattered the illusion about the functioning of the “invisible hand” of the market. The present day globalization differs from the previous one, the one that occurred a century ago, in the rule of the financial over the real economy in which the unlimited flow of capital is what is of utmost importance.

Many authors from all around the world claim that fascism is the direct and obvious product of liberal capitalism that occurred on the verge of the 20<sup>th</sup> century. That kind of orga-

nization of the society (in which profit, capital and market become goals in themselves) reduces a man, all his previous functions, and his precisely determined place in the society, to labor- as goods, and it mercilessly and brutally displaces him from his former position in which he had a sense of self-esteem, in which he felt secure and which provided him his social status. The same authors consider that it is precisely this free market that brought about the monopoly, on the one hand, and that, on the other hand, in such a fragmented and atomized society, chronic fear from uncertainty eventually caused the psychological instability of the people all of which pushed the masses directly into the hands of fascism.

Profound understanding of globalization and its dramatic and contradictory processes is what is necessary for successful modernization of every country, and, therefore, of Serbia too. Our political governing elite is still not capable to rise adequately to this epochal challenge. In the final decade of the 20<sup>th</sup> century, we tried to find a solution for these contradictory processes of globalization in isolation and even in defiance to these globalist processes. We are all aware of the price that was paid for such an inappropriate solution. At the beginning of the third millennium, after the elimination of the old regime, the new one tried to find the answer in the other extremity. Instead of treating the globalization with ridicule, and instead of indication only its defects, the new political elite in our country can only see the benefits of globalization and they (or, it is better to say we) give in completely to its processes.

In that way, instead of angry anti-globalists we now have ardent globalists. From the point of incomprehensible arrogance we reached the point of complete servility towards

those from the world community who are currently in power. Instead of the insane attempts to put up a head-on opposition to this “mad machine” of globalization and instead of trying to change this “unjust world order,” we placed our destiny, without thinking, into the hands of the others - that is, into the hands of local “lords of the world” expecting that they will take care of our interests that we are not prepared to take care ourselves. In the process we did not take into consideration that they (unlike us) take particular care about their own interests, which, as a rule, are achieved at the expense of the other people’s interests, and even our interests. Both of these extremities, or extremes, are equally dangerous and lethal to every small country, therefore, to ours too. The best solution must be found in between these two extremes, and this represents the key challenge that deserves a proper response. This is not possible unless one fully understands globalization and its dramatic and contradictory processes.

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If one observes these globalist trends from an economical standpoint, or, more precisely, if one observes them within a geoeconomical context, then it is possible to see that modern global economical development is determined by two opposite tendencies: the submission of world economy to the interests of world oligarchy and transnational capitalists, on the one hand, and to the competition of the national economical systems, on the other hand. In the intertwining of these tendencies we have a large number of different combinations of economic models of certain countries.

These vary from powerful national economies, in which most transnational companies have their basis and in

which national interests and interests of big businesses mainly overlap (like in the case of the USA and Japan), all the way to the complete colonial dependence of large number of economically undeveloped countries (mostly African countries), which are dominated by transnational capital. Most of the countries operate in between these two extremities, like it is the case with the countries of the European Union (which gave up their national economic sovereignty to the benefit of European transnational capitalists), with the successful and fast-developing countries of the Southeast Asia (which are successful in their attempts to preserve their national economic interests while, at the same time, attracting foreign capital), the countries of Latin America (which try to create the space for the development of their own capital in the conditions of the dominant transnational corporations), etc..

The creation the every country's economic model takes place within the context of a very fierce struggle between the representatives of the transnational and national capital, the world oligarchy and the authentic national elite, this struggle being for the control over the institutions of state authority. These have different (mostly diametrically opposed) interests, different value systems, different means of action, etc. Serbia should avoid the destiny of a large number of small and economically insufficiently developed countries in which the contradictions between the interests of the transnational and national capital were resolved by submitting the latter to the interests of international companies and by creating the domestic comprador elite which was then included into the peripheral layer of the world oligarchy.

When speaking about world oligarchy, what we mean by this term, simply speaking, is the very complex and hetero-

geneous totality of large transnational (and of those submitted to them) corporations and banks, and scientific, consultant and legal institutions which do service to them; it is the totality of international financial organizations which act in their interest, and also of different formal and informal organizations that influence the formation of public opinion. Not taking into consideration its amorphousness, world oligarchy seems to be very coordinated in reality because of the simple fact that it is integrated by the same economic interest - that is, by free flow of transnational capital and submission of the economies of a large number of countries to their own interests in the purpose of maximizing the profit. That is why it would be wrong to try and explain the way world oligarchy functions by means of different kinds of conspiracy theories or activities of some satanic forces; it would be much better to explain it through the concept of objective economic interest of large capitalists.

In order to realize its own interests, the world oligarchy is trying to weaken both the national systems of security and institutions of government and of national sovereignty (by replacing them with the international institutions and law), and to destroy national economic structures (by subjecting them to the interests of transnational capital). This can be accomplished in different ways: by indebting a certain country heavily, by causing political instability and creating chaotic situation in the society, by undermining the state's authority and its fundamental institutions, by suppressing the national consciousness through destructive activities of foreign anti-national ideologies, by relativizing the well-established system of values and by challenging basic national institutions (the Church, the Academy of Sciences, etc.) as well as the positive legacy of a country's history, by corrupting and demoralizing the domestic elite, by

formation of a great number of NGOs (their staff is mostly trained, financed and supported from abroad and has antinational direction), by shaping the public opinion through mass media which is put under the control of the factors outside the country (and which represent a peculiar media machine for the promotion of compradors and for diminishing the value of true patriots), etc.

On the other side, national interest of every country is reflected in the need for the defense of the state's independence, in providing for the high standard and general well-being of its citizens, in preservation of its own national culture and the possibility of realization of its own spiritual values. These kind of interests determine certain priorities in the area of international cooperation, and, in the area of economy, they are reflected in the opening towards international economic surroundings (by skillfully using their own comparative advantages), in the attraction of foreign (of direct, in the first place) capital, in international cooperation (which should be under national control and should provide the protection of the internal market), in reducing the foreign investments only to the areas which are of vital national importance (at least at the beginning, until domestic capital grows stronger-like, for example, in the case of banks in Czech Republic, power industry in Russia, land in Slovenia, etc.), in the support from the national producers and stimulation of the competitiveness of national economy.

Until it reaches its goals, which consist in the submission of the economy of a certain country to its own interests and in the extraction of maximum profit from it, world oligarchy finds and shapes, several years in advance, the domestic quasi-elite (which has, above all, antinational provenience and a materialistic world view and a system of values in accordance with it)

which is supposed to take key positions in the country at the appropriate time. These positions include, among others, those positions from which economic changes in the country are supposed to be planned and carried out. Some ready-made solutions concerning the management of economic politics are offered from these positions; also, some foreign “independent” economic experts and advisers are being promoted, and significant external economic help is being promised.

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In the 1990s, in most of the post-socialist countries, that is, in most of the transitional economies, a (neo)liberal program of radical economic reforms was adopted; it was based on the so-called Washington Agreement, or Washington Consensus (developed by International Monetary Fund, the World Bank and the USA administration: the Department of Finances and the US AID).

Through various foreign consultants and through negotiations with international financial organizations, this program was offered and “imposed upon” all transitional economies as a unique and universal recipe. Theoretical foundation of this neo-liberal program, based on the neo-classical school of economic, practically draws on the hegemony of the American model of pure market economy over the European model of social market economy. That is why programs for countries in transition were based on, from the theoretical point of view, a very questionable assumption that market in itself contributes to efficient outcomes, and that state interventions at the market are undesirable. It was considered that it is sufficient to carry out the financial stabilization, the liberalization of the economy and the privatization of the state property as soon as possible

in order to provide stable economic growth. Too much faith was put in the automatism of self-regulation of the market and also, there was too fervent a conviction into the necessity of the state's withdrawal from the area of economy.

Two basic weaknesses that appeared in most of the transitional economies during the process of reform implementation consisted in the radicalism of economic reforms and state's withdrawal from all areas of economic life, and also in the exchange of goals for means in the strategy of economic reforms.

With radical economic reforms, a systemic vacuum was created, the vacuum in which the old structures of management were quickly destroyed while the new ones were not yet created. Unless the reformers simply destroy the old structures, norms and limitations in order to "sweep the state," without taking into consideration that the process of creation of new demands takes a lot of time, a dangerous vacuum is what will be created and also "wild" market which will bring about criminalization of the economic life and it can greatly slow down the advancement of economy in the direction of efficiency and growth.

That is why disastrous results were achieved in those countries where they took a radical course of change which was based on quick financial stabilization, radical liberalization of economy and mass privatization and where it was considered less important to build adequate institutions and to provide the rule of law. On the other hand, the development of the new institutional frame, which was supposed to respond to the situation at the market, was done, in most cases, by using the method of "shock therapy" and by uncritical adopting of western models which, because of the significantly different situation at the transitional economies, did not prove to be even

approximately efficient as it was in the West.

We should point out that the creation of an adequate institutional frame necessary for efficient market economy presupposes not only the existence of rules and norms (which can be either formally regulated through laws, agreements and contracts or the more informal ones such as customs, traditions and stereotypes of behavior which are determined by socio-cultural characteristics of a certain society), but also the existence of institutions and procedures which provide (even forcefully = enforcement) abidance by those rules.

Ideological decision of the reformers to break off with the past regime as quickly as possible was often the cause of the destructive urge, all of which could hardly create a healthy basis for the economic reformation and modernization of the society in general. Our experience from history shows that neither economical revitalization, nor the modernization of the society in the whole can be achieved without a stable state which has powerful and efficient institutions, which support the market model of economy.

The other important flaw is the exchange of goal for the means of strategy of economical reform, which causes the strategy itself to become deformed, and also an inadequate understanding of its effect on real economy. Stable financial situation (low inflation and stable exchange rate), privatization and liberalization of economy, are only the means of economic strategy and not the goals in themselves. Simply speaking, financial stabilization, liberalization of economy and privatization should be the means for achievement of economic reforms. However, they are being considered as the factors of the success of reforms and not as the prerequisites for the achievement of fundamental goals. The creation of market economy

is not important in itself, it is important as a factor of acceleration of economic growth and the expansion of the welfare of people. There are many countries in the world (like Latin America, for example) with market economy at an extremely low level of economic growth, with an enormous majority of population living in great misery and where there is a high level of criminalization of the economy and the society in whole.

Past experience of the post-socialist states in the process of reform of the economy shows that the programs of radical economic reforms, based on the Washington Agreement, failed and that better results were achieved only after this course was dropped, and when the countries developed their own economic programs (for instance, Poland - from 1994 with its "Strategy for Poland" program by G. Kolotko or Russia from 1998 with J. Primakov and V. Putin) which, taking into consideration the experience from all around the world, consider the specifics of their own economies and interests of their own people. Slovenia is the best example of a successful transitional economy which from the very beginning renounced the "favors" of the consultants that had universal programs of radical economic reforms and, by realizing its own program of modernization, achieved excellent results.

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In 2000, after the change of the government, Serbia found itself at the beginning of economic reforms that were supposed to make economic activities more dynamic and (sustainable in long term) to bring about the considerable growth of standard of the population. To be a decade behind schedule is an enormous drawback but this was also the great chance to avoid mistakes, illusions and wanderings through which other

economies that were in transition had gone through. Unfortunately, we did not know how to use this chance. It is not understandable that we carried out our reforms in the same way as most economies in transition did at the beginning of the 1990-ies, and that we completely discarded the experience of the successful ones, for example, of Slovenia.

Right after the events in October of 2000, the exchange rate in Serbia was, de facto, stabilized; it was done in the situation in which domestic prices were going up significantly (by the end of 2003, the exchange rate changed in about 15-20%, while domestic prices, in the same period of time, had gone up several times) which lead to the dinar to be over-valued. This kind of dinar politics made the domestic goods more “expensive” on the foreign market and de-stimulated export while stimulating import, because foreign goods became “cheaper”. In that way the domestic production got “choked” because the products of our enterprises became uncompetitive, in terms of their prices, and not just in foreign market but also in the domestic ones. At the same time, radical liberalization of the export was carried out (some limitations regarding customs were abolished and import rates of duty lowered), which lead to further “suffocation” of domestic production and quick and disturbing decrease of economic activities, as well as to the decrease of the economic activities of the domestic enterprises and the lowering of their value; these enterprises were later sold to the new owners in these conditions of mass privatization at extremely lowered prices. In the end, the incomes made from privatization in such a way mostly go into the budget for the financing of current production.

That is why we should not be surprised by more than humble results, which were accomplished in the last few

years, and which are compared to the period of the year 2000. It is interesting that the current state is continuously being ascribed to the extremely unsuccessful, more than ten-year-old politics of the previous regime during whose rule the country got disintegrated, enormous expenses were made regarding the wars that were waged in the surrounding countries, the thousands of refugees' arrival, the economy destroyed by hyperinflation, economic sanctions and the bombing of NATO forces, etc. Even though, in the year 2000, we "started" with the low base, and even though economic sanctions were abolished in the meanwhile, and even though we got donations and credits from abroad which earned us around several billion dollars, and even though we earned the sum of around a billion dollars from selling the property in the process of privatization, we, unfortunately, still have not achieved very good state of economy.

Besides all this, we should emphasize that in the period after the year 2000, we had (mainly because of the loan and the donations from abroad) the situation that our GNP was smaller than our available product, and that we were spending more than 100% of our GNP on consumption (in other words, we were spending more than we were earning). That is why our situation is much worse than it appears at first sight and it needs urgent defining and carrying out of an elaborate strategy of reform of economy, but also of the development of the society in the whole.

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In the process of the reform of economy, our country will have to combine successfully the concept of the open market, that is, the concept of openness towards the world, on the one hand, with meaningful orientation of economic develop-

ment with significantly changed role of the state, on the other hand.

From the economical standpoint, it is not recommendable for Serbia (or for even more powerful states) nor it is in its national interest to stay aside from the modern global processes. At the same time, it is not capable to change significantly the existing world order in which world oligarchy and transnational capital dictate the “rules of the game” which are meant to bring them the maximal profit out of every country which lets them to. That is why one has to “play” by these rules, but it is necessary to keep in mind that what is important in this game is to kick the ball into the opponents net and not one’s own. By recognizing those rules it is necessary to cling to one simple principle (which all successful countries abide by): one has to start from one’s national interests when running state politics. And even if these interests are in opposition with the interests of the world oligarchy and transnational capital it does not mean that fierce confrontation is what is needed. If national interests, which enable the stability and protection of domestic enterprises, are protected in a determined and consistent way, transnational capital quickly adapts to these conditions and enters in the mutually useful cooperation with the domestic producers. Stable state with powerful and effective institutions, the rule of law and stimulating surroundings for investments is the best “magnet” for the attraction of both domestic and foreign capital.

Besides all this, every country has at its disposition different instruments, which enable it to change the rules of global competition in her internal market in accordance with its own national interest. They can do it mainly: by protection its internal market and domestic producers, by leading active politics of stimulating the development and creation of the conditions for upgrading the competitiveness of the domestic

economy and economic growth, by preserving national control over the natural resources and key branches of economy, etc. It is not in our national interest to accept the one-sided limitations of supernational organizations (the European Union, World Trade Organization) the members of which we are not yet. The period of time that will pass until we become members of the mentioned organizations should be used and effective instruments should be created to protect our internal market and our domestic production, and the competitiveness of domestic producers both on internal and on foreign market should be supported. In that way we will be more prepared for the time we enter European Union and WTO in order for our domestic producers to fit in more successfully into the existing rules of global competition.

In the situation of global world competition and division of labor, every country possesses certain comparative advantages; in the case of Serbia, these would consist in: the natural resources for the development of agricultural production (agronomy, cattle-breeding and fruit-growing, as well as the production of herbs and mushrooms) and on its basis the manufacturing capacities which could enable significant market surpluses for export where accent should be put on healthy food (but also on spring and mineral water); geographical position suitable for the development of the infrastructural sector (traffic, telecommunications, energetics) which could (along with the help of the trade and other services) provide significant hard-currency earnings but also to give an impetus to investments; furthermore, there is the relatively cheap, educated work force ready to contribute, among other things, to the strengthening of the service sector and, especially, of the information activities (which could be done also for foreign customers from the

more developed parts of the world); then there is our Diaspora whose potentials have not been used in appropriate manner thus far, etc.

In the area of foreign economy, in terms of cooperation with other countries, Serbia would have to lead a more active politics, not just towards the EU, the USA and the neighbors but also towards all our traditional partners where there are enormous unused potentials, like, for instance, in Russia (what particularly surprises is our passive relation towards the signed deal concerning free trade which could be very tempting for greater foreign investments into our country because, in this way, an enormous market from around 160- and not just 10 million people without tariff barriers would be created) towards the countries which export oil (the engagement of our of our construction industry, the export of healthy food, spring and mineral water) as well as other countries.

In order to realize all of the above-mentioned things, the role of the state has to be changed and made more efficient. Because of all this, it is necessary to get rid of the past course of radical economic reforms (based on the Washington Agreement) and abandon the naïve belief of the “market fundamentalists” that stabilization, liberalization and privatization resolve all problems automatically, and to be aware that in the process of the reform of economy, stable state has a significant role with efficient institutions and rule of law. Without such a state it is difficult to expect economic transformation and modernization of society in general.

The state has to have an important role not just in the creation of the institutional infrastructure necessary for efficient functioning of market economy, but also in the setting in motion, accelerating and orientating the economic develop-

ment, without lessening, in the process, the stimulating function of market competition, the allocation mechanism of the market, the freedom, initiative and creativity of the individuals and economic persons. In other words, the state can, in a large degree, help move, coordinate and direct the activities of the autonomous subjects in order for them to fully develop their potentials. There are many examples of such role of the state, starting with the highly developed European countries (especially in the period of recovery, after World War II), over the fast-developing Asian, and successful transitional countries.

The degree of a state's interference into the economic life of a certain country depends on the level of its economical development. If a country is more developed, economically, and if it has developed, effective market institutions, and if it has a large number of competent managers and entrepreneurs, then certainly there is no need for the state to meddle into the affairs of the economy so it can limit its concern to taking care of the market "rules of the game", to the possible improvement of the market mechanism in extreme cases (because it is not possible to foresee and regulate every single situation in advance), etc. In the opposite case, it is desirable that the state's role in the area of economy, and also in the incitement of economic growth, be more emphasized.

Besides this, one should bear in mind that we live in the age of globalization in which large capitalists, that is, the powerful and aggressive transnational companies, try to enable free movement of "their" goods and services, and "their" capital (but not of the "foreign" labor force) in order to generate maximal profit. The meddling of national states into the affairs of economy is being prevented in every possible way in order to prevent them (by limiting free action of transnational companies) from

protecting their market and enticing development, while paying attention to their own national interests.

That is why, in economically underdeveloped countries (like Serbia) there has to exist a very clear state policy by which, on the one hand, vital national interests would be protected from the powerful strokes of globalization, and, on the other, stimulating conditions for domestic and foreign investors would be created.

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The reform of economy itself is an economical and a political process at the same time, and in reality it often happens that the political interests overpower the economical ones. The experience of other transitional economies shows that the basic problem does not arise from lack of theoretical knowledge or from not being familiar with other countries' experiences, but precisely because of the lack of political determination (and of aspiration and interest) to perform the necessary reforms in the interest of a certain country itself and its citizens. Unfortunately, there are less and less politicians, occupying key positions in transitional countries, who have clear guiding idea and vision of how to create a modern and prosperous country (to the well-being of the majority of its citizens), and more and more "pragmatic" politicians and high officials who happen to see the politics as a perfect possibility for their own positioning and realization of their own interests.

If one considers some examples of the countries that were successful in modernizing their states after World War II, we can see that the ways of reform were significantly different from one country to another, and that at the head of modernization of these states were either democratic (Ludwig Erhard

in Germany or Jawaharlal Nehru in India) or also autocratic rulers (Salvador Pinochet in Chile or Deng Xiaoping in China). Their rules were in many things significantly different, and some of them can be blamed personally for many things, but what is common to all of them is that they were all statesmen, in the proper meaning of the word, who loved and knew their own people and state, and who leaned on the authentic national elite with which they developed an original strategy (of interconnected economic, legal and political measures) with which they reached the goal of modernization of their states.

This goal was not just economical (namely, attempts have been made to try and boil the transition down to this aspect only), since there are many other things (family, society, etc.) and categories (religious, ethical, aesthetical, etc.) that are more important than economy. However, economic base is of utmost importance for all this, the base without which the other areas of human spiritual life cannot be developed properly. This is why one could say that economic reforms should bring about to the not just the economical, but above all, spiritual rebirth of one's people. In addition, unlike proponents of neo-liberal economic doctrine and pure market economy, one should always bare in mind that economy has to serve mankind and not the other way around.

All of the mentioned reformers and bearers of successful modernizations in other countries, had wide support from their people, and the reforms themselves were not the choice of just one small group of political "reforming" elite and of the "experts" appointed by it. One has to know that no reform can be successful unless one can receive consideration of the larger part of the citizens themselves who must be convinced that the reforms are being introduced to their benefit, that is, to the benefit of

the greater majority of a certain country's population and not in the interests of large capitalists and small groups of domestic political elite (which are accompanied by NGOs, "independent" media, political "analysts," economic "experts" and the such-like).

When we talk about economic reforms in Serbia, it is necessary to develop and carry out one's own program of economic reforms which will be the result of "domestic" intelligence, and not to go by already existing programs which are being offered by various "authoritative" international financial organizations and "independent" consultants from abroad. Such program should be theoretically worked out and carried out in practice by qualified, expert and authentic domestic elite. We should bear in mind that it is not enough to know only in theory how a certain abstract economy should function, but it is necessary to have deep insight into the real state of the economy of one's country, to know the mentality of one's people, to be a true patriot and to know how to use general economical principles in an authentic way keeping in mind the specifics of one's country. Because, if one does not know his people well and if one does not have love for them, then nothing original, because only original ideas could yield positive results, can be neither suggested nor realized later.

P.S.

*This Summary ends with the translation of a part of book (page 95-102) which a foreign reader may find interesting. The text which follows speaks about one of the most galloping hyperinflations registered thus far in the world, which Yugoslavia faced in the 1992-1994 period, and about how it was curbed.*

In the period between 1992 and 1994 Yugoslavia experienced a hyperinflation which in the world economic history ranks third in terms of its 22-month duration (March 1992 - January 1994), as well as in terms of maximum monthly level of 314 million or, more precisely, 313,563,558 percent (January 1994).

It is worth noting, just for reasons of peculiarity, that January 1994 inflation was 116,545,906,563,330 percent at annualized level. Daily inflation was 62%, and that of one hour only (60 minutes) 2.03% which was higher than annual rates of inflation of many developed countries.

At the time of such high hyperinflation in Yugoslavia, the prices in stores were shown in conditional units - coupons, and the coupon equaled one Deutsche Mark. Trade was carried out in DM or in dinars at current "black" exchange rate which was changing frequently, sometimes several times during one day. Thus, for example, on 13 January in the morning, street sellers - "dealers" were selling the DM for 500,000, about noon for 600,000, and in the evening hours for 800,000 dinars. The noon "black" exchange rate of the DM was on 14 January 900,000, on 15 - 2,500,000, on 16 - 3,500,000, on 17 - 5,000,000, on 18 - 5,500,000, on 19 - 10 million, on 20 - 14 million, and on 21 January - 15 million dinars.

The money got so quickly devalued, that absurd situations occurred. In early 1994 appeared a metal coin of 1 dinar, so that for one dollar one had to give 700 tons of those coins. Pensions paid on 17 January were such that average pension amount of 4.8 million dinars was not enough to buy with it one DM in the “black“ market. At the same time, the price of one kilo of beef was 70 million dinars, while a 3-kilo sack of a detergent cost 67 million dinars.

The destructive hyperinflation was pushing the national currency unit – the dinar – out of the economy. The money supply in January 1994 was only 0.4% in relation to social product, while this percent ranges between 25% and 30% in normal circumstances. The dinar stopped to fulfill the money functions as a measure of value, the means of payment, the stock of value and, to a large extent, the function of the money as a medium of turnover, and/or a medium of trade. Everybody was trying to get rid of dinars so that the velocity of money at the time when the hyperinflation was at its peak reached a fantastic figure of 3,673, and/or in just one day the dinar „changed hands“ 10 times.<sup>1)</sup>

Such devastating hyperinflation had as a consequence a drastic deterioration in all essential economic indicators. Only in 1993, the fall of 30% in the social product was recorded, investments and industrial output went down by 37%, each, while unemployment reached as much as 24.1%.

At the same time an enormous budget deficit was created in a situation where public revenues were rapidly decreasing

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<sup>1)</sup> In circumstances of such a high hyperinflation, the activity of the real sector slows down at an accelerated pace due to abrupt growth of the inflation tax costs, while at the same time increases the trend of getting rid of the domestic currency, which leads to a drastic increase in its velocity.

(the drop of the tax base due to the fall in the economic activity and because of the international sanctions a substantial growth of the “gray economy” due to which a significant part of the already reduced social product remained untaxed, etc.), and public expenditures were significantly growing (larger allocations for social needs caused by deteriorated economic situation in the country, economic and war assistance to the Serbian population in Bosnia and Herzegovina and Croatia where a civil war erupted, aid to refugees, etc.). Budget deficit was mostly financed by reserve money, and that monetization of the budget deficit<sup>2)</sup> is the basic cause of hyperinflation.

In early 1994, after the record hyperinflation experienced by Yugoslavia in the preceding months, a “Program of Monetary Reconstruction and Economic Recovery“ was adopted. A team of experts which prepared this Program was headed by Prof. Dr. Dragoslav Avramović, after whom this Program would be named in general public. Prof. Dr. Dragoslav Avramović was later appointed as Governor of the National Bank of Yugoslavia, and he gave an enormous contribution to implementation of his self-worked out Program.

The principal measures of the Avramović Program were primarily linked with monetary and fiscal spheres so that it was actually an orthodox stabilization program.

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<sup>2)</sup> Destructive hyperinflation pushed the dinar out of the economy and it stopped almost fully to meet its basic functions. The dinar was almost exclusively used for payment of fiscal obligations to the state. However, budgetary revenues raised in hyperinflationary environment devalued literally during one day. They actually accounted for only 1% (during the highest hyperinflation), while the remaining 99% of necessary budget expenditures was financed from reserve money, and/or with credits of the National (Central) Bank of Yugoslavia.

The Stabilization Program was intended to accomplish, first and foremost, the following objectives:

- Curbing of the hyperinflation, and restitution of the lost money functions to the dinar,
- Allowing an accelerated and steady economic growth,
- Important increase of salaries (drastically devalued during the hyperinflation era), and provision of minimal security of all citizens,
- Reform, of substance, of the economic system, particularly in the financial area, and acceleration of the transition process, etc.

It was necessary at the same time to create the conditions as early as possible (by political factors in the country, in the first place) for the lifting of international sanctions and to open up the economy towards abroad, as a prerequisite for the Program's implementation in full. As it was clear that the lifting of international sanctions could not be waited for in order to only then start curbing the destructive hyperinflation, it was decided to prepare a program of stabilization and implement it in two stages.

The first, short-term stage, envisaged a monetary reconstruction and anti-inflationary measures aimed at curbing the inflation. It had to be implemented in the first 6 months by relying on our own forces, even in the circumstances of economic sanctions imposed by the international community.

The second, long-term stage, envisaged the economic reforms, in substance, which would lead (by preserving the stability accomplished in stage one) to economic recovery of the country, or which would ensure a steady economic growth in the long run. This stage, as emphasized by the Program

authors, supposed the lifting of the economic sanctions and inflow of „fresh“ capital necessary for its realization.

As the above supposition did not materialize, the second stage did not stand any chance for a notable success, unlike the first stage of the Program in which extraordinary results were achieved. That is why only the first stage of the Avramović program will be highlighted in greater detail because, in the meantime, international economic sanctions were not abolished.

The first stage of the Program - Program of Monetary Reconstruction – was implemented in the conditions of economic sanctions, without foreign assistance and without any capital inflow, with initial foreign exchange reserves of about 300 million Deutsche Marks. Conditionally speaking, the basic measures within the monetary reconstruction program were oriented to monetary policy and monetary reforms, and fiscal policy.

Monetary policy had to play an important role in curbing the hyperinflation and in stabilizing the prices. For that purpose were introduced positive interest rates, while selective credits were abolished. Financial and monetary discipline was significantly tightened and independent role of the Central Bank strengthened (allowed by adequate, very good law adopted in mid 1993).

Monetary reform was also carried out by introduction of the new dinar with fixed exchange rate of 1:1 in relation to the Deutsche Mark<sup>3)</sup> and 1:12 million in relation to the hitherto

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<sup>3)</sup> Fixed exchange rate was intended not only to restore confidence in the national currency, but also represented a nominal anchor for other nominal aggregates.

(old) dinar.<sup>4)</sup> The issue of the old dinar stopped on 17 January 1994, and seven days later (on 24 January) a new monetary unit – the new dinar was floated. Internal convertibility of the dinar was introduced, and the issue of the new dinar was covered by foreign exchange reserves of the National Bank of Yugoslavia.

Fiscal policy envisaged a significant growth of budgetary revenues from real sources (by expanding the tax base, shortening of the tax collection period and introduction of new tax forms – the excise tax, for example)<sup>5)</sup> but also the keeping of the budget deficit in the first months. Namely, it was held that the level of public expenditures was very low and that their major reduction was not acceptable. According to the Program, budget deficit in the first six months had to be covered from the available foreign exchange reserves.<sup>6)</sup> Expectation was that in the new economic circumstances economic activity would grow and that an important portion of the “gray” economy would move to legal flows that would entail an increase of budgetary revenues and create the prerequisites necessary for a balanced budget.

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<sup>4)</sup> In that way, two national currencies were in circulation: the old and the new dinar.

<sup>5)</sup> Tax rates were also lowered as it was believed that with a simultaneous expansion of the tax base in a new economic environment a substantial portion of the “gray” economy would be legalized.

<sup>6)</sup> The issue of new dinars for covering the budget deficit was covered by the available foreign exchange reserves. Moreover, new dinars were also issued on the basis of the foreign exchange purchased by the National Bank of Yugoslavia from the corporate and retail sectors. In that way, in the first stage of the Program implementation the new dinar was issued on the basis of full foreign exchange coverage, and did not have any inflationary consequence.

It was precisely the keeping of the budget deficit in the first six months, and its financing with available foreign exchange reserves what made the Avramović program conceptually different from a standard orthodox stabilization program.

The first phase of the Avramović program produced fascinating results.<sup>7)</sup> The hyperinflation was curbed “overnight“, prices were stable and inflationary expectations were eliminated. The dinar soon recovered its earlier lost functions. Interest rates became real positive. The newly established exchange rate remained stable, and foreign exchange reserves were rising. A substantial part of the “gray” economy was brought back to the legal sector. Budget deficit was going down from month to month and at the close of the first stage of the Program implementation it was practically eliminated. Industrial output registered relatively high rates of growth, and at the same time the salaries of the employees increased significantly in real terms.

It is a great pity that conditions were not created (lifting of international economic sanctions and, in that connection,

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<sup>7)</sup> A great many exceptionally affirmative texts have been written about it worldwide. Here will be quoted only a part from one of such texts: “Usually, when seeking an example of a genius in economics we mention Milton Friedman. However, if I were asked, I would say it is Dragoslav Avramović, Governor of the Central Bank of Yugoslavia and pensioner of the World Bank. The main difference between Friedman and Avramović can be summarized by one word that Avramović is a real genius, but he has no chance to be a Nobel Prize winner because he is a Serb. What is it where this Serbian genius in economics manifests? In spite of the strict economic sanctions against Yugoslavia, the abundance has in the recent months been visible in Belgrade in each store, counters are full of consumer goods ... There are even traffic jams in Belgrade, and it is happening in a country which has been under a strict oil embargo for the last two years ... The most brilliant part of Avramović’s magic was his success to put a stop to the hyperinflation which was 60% per day.“ (Davar, Tel Aviv, 3. 6. 1994).

inflow of “fresh” capital) for implementation of the second stage of the Avramović program. It would have probably been as successful as the first one. The argument supporting this assumption is primarily the fact that the Program had been well designed, but also the determination of Prof. Dr. Dragoslav Avramović (proven during the implementation of the first phase of the Program) not to accept any theoretical economic concept as a dogma, and his skill to find the right solutions to new problems emerging on a daily basis, and to permanently adapt to them his own Program.