Privatisation in Yugoslavia (Serbia and Montenegro)

MLADEN LAZIC & LASLO SEKELJ

In this article we shall explain the story of 'transition without transformation', or post-communism with suspended change, in Serbia and Montenegro (Federal Republic of Yugoslavia\textsuperscript{1}), particularly in the area of privatisation. In this respect, privatisation represents a mirror of the entire transformation process. Without genuine transformation of property relations it is hardly imaginable that the power structure of the ancien regime, i.e. state socialism, has really been changed.

We shall first describe how the Privatisation Act originated in an unsuccessful economic reform programme introduced by the last former Yugoslav (SFRY) government, in conjunction with the rapid disintegration of the state which eventually ended in economic disaster and civil war. Next we describe the privatisation process in detail, with all the relevant data, and then the statisation of property as the real outcome, so far, of that process in Serbia and Montenegro. Finally we shall discuss recent data on the emerging private sector in the economy.

The Yugoslav economy deteriorated drastically during the 1980s. The rate of growth dropped significantly, together with real wages and investment efficiency, while the rate of inflation increased. This was just a part of the structural crisis of the Yugoslav state and society. A programme of 'long-term economic stabilisation' was introduced in 1983, but without success because it was not followed by any institutional change. After a long discussion, in which agreement about the necessity of economic and political reconstruction was reached, changes in the Constitution followed in 1988. The last Yugoslav government, under the former Croatian prime minister Ante Marković, took office as a result of these discussions.

The Marković government announced a programme of economic and social reforms in December 1989. Privatisation of social property was a part of that programme. In a situation of hyperinflation of over 10 000% yearly, falling production, high unemployment, a large foreign debt, domestic monetary chaos and accumulated structural economic problems, Marković's reform programme received wide, but only verbal, support from international organisations, Yugoslavia's neighbours and friends, and European and world powers. Domestically, it met with the undivided sympathies of the citizenry and the hostility of the politicians. The basic goal of these reforms was the creation of conditions that would allow the functioning of a unified Yugoslav economy on a market basis and the beginning of the process of resolving the accumulated structural problems of an economy that was hyper-regulated and divided along republican-national lines. In other words, Marković had the goal of confronting the crisis of modernisation on the basis of ownership
TABLE 1

INTER-REPUBLICAN EXCHANGE OF GOODS (1987)

<table>
<thead>
<tr>
<th>Percentage of all goods produced and sold inside the same republic</th>
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<tbody>
<tr>
<td>Bosnia-Herzegovina</td>
</tr>
<tr>
<td>Montenegro</td>
</tr>
<tr>
<td>Croatia</td>
</tr>
<tr>
<td>Macedonia</td>
</tr>
<tr>
<td>Slovenia</td>
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<tr>
<td>Serbia</td>
</tr>
</tbody>
</table>

Source: Borba, 3 June 1991.

Restructuring and political pluralism. The restructuring of the economy and economic relations should have created the objective preconditions for systemic integration in Yugoslav society.

The non-existence of a unified Yugoslav market for goods, labour and capital—objective preconditions for systemic integration of Yugoslav society—was visibly demonstrated by inter-republican mobility of capital of less than 5% and each republic’s concentration of sales in its own market (see Table 1).

In order to carry out the economic reforms, the Marković government proposed an entire series of laws (the Privatisation Act being one of them) in the Federal (SFRY) Parliament. Some of the key ones—but not the Privatisation Act—were adopted through the intervention of the SFRY Presidency as temporary measures for six months, since some of the parliaments of the federal republics did not approve their adoption. The centralisation of monetary policy in the hands of the federal government was the most important act and it never had complete legal support. The reason for this is that the 1990 parliamentary elections in Slovenia and Croatia brought to power non-communist political parties with mandates to create the independent states of Slovenia and Croatia. They therefore continually refused to implement the federal government’s macroeconomic policies. Simultaneously, but this time for traditional ideological reasons, Serbia behaved in a similar manner. The Marković government deregulated the economy (ad hoc administration was abolished, the market was opened to imports, prices were freed, the unlimited exchange of hard currency for dinars by both firms and individuals was made possible and the privatisation of public property begun). This therapy was supplemented by measures intended to create order in the hitherto chaotic banking situation (which was a result of the banks’ patrons’ losses: in 1990 alone, losses in the Yugoslav economy were close to DM9 billion).

As a result of these government policies, 160,000 small and medium-sized private enterprises were founded (45,000 remained in September 1991), the country’s hard currency reserves increased, the hard currency debt decreased, foreign trade was stabilised, and an entire series of economic laws that were modeled upon the norms of the European Community were prepared and adopted. Yugoslavia applied for associate membership of the EEC and full membership of EFTA and the OECD. The IMF and the IBRD verbally supported the Marković reform programme, but without significant financial support, and other international organisations followed the same policy. Nevertheless, Yugoslavs had begun to have faith in their prime minister for the first time, regardless of the fact that the divided nationalists were united only in
the struggle against him. Because of his policy of preserving the minimum functions of the federation (macroeconomic policy, human rights, defence and foreign affairs), Marković became ‘state enemy number one’ by May 1990. The sabotage of his policies by the governments of all the republics, regardless of whether or not they wanted to (allegedly) preserve Yugoslavia as a state, was a consequence of the market orientation of the federal government at a time when all of the republics were strengthening their own economic regulation. The federal government wanted to pursue privatisation of social property on the basis of employee shareholding, while the republics supported public property. The federal government was opening the market, while the republics were closing it. The federal government was lowering inflation, while the republics refused to give up the right to unhindered interference in the banking system and continuously increased inflation (121% in 1990, despite an initial drop to under 12%). Even before the secession of Slovenia and Croatia and the beginning of the civil war, the republics had come to the point where they not only neglected their obligations to the federal budget but also appropriated for themselves income that belonged to the federation, such as customs duties and federal sales taxes. The political chaos was accompanied by the largest fall in production in SFR Yugoslavia since 1945 (see Table 2).

This economic decline continued in 1991 (see Table 3).

At the end of April 1991, on the eve of Croatian and Slovenian secession, the federal government, overwhelmed by unfavourable indicators, modified (too late, as was later seen) its reform programme. It was again focused on the monetary aspect of macroeconomic policy. The currency was devalued by 45.44%. Expected inflation in 1991 was 70%. Inflation reached 10.9% from April to May 1991. The renewed reform programme also received wide international support. Billions of dollars were pledged, which were urgently necessary for Yugoslavia to renew the investment cycle in order to enable economic recovery and give the federal government at least one source of power. New loans, a write-off of half of the foreign debt, associate member status in the European Community, and access to EFTA and the OECD were made

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**TABLE 2**

<table>
<thead>
<tr>
<th></th>
<th>March 1990</th>
<th>March 1991</th>
<th>Rise in unemployment</th>
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</thead>
<tbody>
<tr>
<td>Slovenia</td>
<td>11.3%</td>
<td>16.3%</td>
<td>from 20 000 to 60 000</td>
</tr>
<tr>
<td>Vojvodina</td>
<td>14.1%</td>
<td>--</td>
<td></td>
</tr>
<tr>
<td>Kosovo</td>
<td>--</td>
<td>27.0%</td>
<td></td>
</tr>
<tr>
<td>Serbia proper</td>
<td>15.4%</td>
<td>19.8%</td>
<td></td>
</tr>
<tr>
<td>Serbia with A.P.</td>
<td>16.6%</td>
<td>23.9%</td>
<td></td>
</tr>
<tr>
<td>Montenegro</td>
<td>20.9%</td>
<td>26.1%</td>
<td></td>
</tr>
<tr>
<td>Macedonia</td>
<td>22.0%</td>
<td>25.6%</td>
<td></td>
</tr>
<tr>
<td>Bosnia-Herzegovina</td>
<td>22.9%</td>
<td>29.0%</td>
<td>from 160 000 to 220 000</td>
</tr>
<tr>
<td>Croatia</td>
<td>23.1%</td>
<td>25%</td>
<td></td>
</tr>
</tbody>
</table>

*Notes:*

aSerbia proper: Republic of Serbia without Autonomous Provinces of Vojvodina and Kosovo.
bSerbia with A.P.: Serbia with Autonomous Provinces = Republic of Serbia.

*Source: Borba, 13, 14 and 23 April and 13 May 1991.*
conditional upon the resolution of the constitutional crisis and the creation of a
democratic but united Yugoslavia. The same was true for other potential sources of
economic recovery like foreign investment. In the period from 1989 to the spring of
1991, 4300 economic agreements were made—half of them by ‘Yugo-foreigners’.4
These agreements were worth DM3.5 billion. Some 778 agreements, worth DM860
million, were signed during the first three-month period; only 10% were put into
practice.5

The failure of the Marković reform programme meant the definite end of
Yugoslavia as a state. For this reason, it was condemned to failure in advance because
it was the only real obstacle to civil war. Had Marković’s economic reforms
succeeded, this fact alone would have brought into question the power of the
nationalist political elites and the entirety of the pre-modern structure of society they
reflected. Likewise, the eventual success of the reform programme would have made
Marković, the most popular Yugoslav politician in all federal units until the spring of
1991, a serious rival to all of the nationalist political groups and his party the
strongest political party in federal elections. The Croatian, Slovenian and Serbian
nationalists’ opposition to the federal government’s reform programme resulted from
the essence of their nationalism. ‘Reform was essentially aimed at ending the planned
economy and establishing a market’.6 This was a programme of establishing objective
preconditions for systemic integration of Yugoslav society, i.e. a unified Yugoslav
market for goods, labour and capital. Because of its Yugoslav orientation, the
programme provoked resistance by the nationalist-oriented forces in Slovenia, Croatia
and Serbia that were politically predominant. Additional resistance by the leading
nationalist politicians in all of the republics was caused by the federal government’s
granting of autonomy to enterprises and its market orientation, based on the pluralist
property system. This is best illustrated by the fate of the federal law on privatisation,
which was implemented by all of the republics in a way that allowed them to assume
ownership of large enterprises. Fortunately, room was left for small and medium-size
private enterprises (mostly in Serbia and Slovenia). One more factor contributed to
the result that the growth of small and medium-size private enterprises was really the
only part of Marković’s reform programme that was successful in spite of the
obstruction by the republics and their preparations for secession (i.e. civil war): a
shortage of reform actors. This is illustrated by our interviews with 141 firm directors
in Serbia and 141 in Croatia, which showed the absence of a market-oriented
managerial consciousness among a majority of members of this stratum, which should

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**TABLE 3**

**YUGOSLAVIA 1991–1992**

<table>
<thead>
<tr>
<th>Year</th>
<th>GNP(%)</th>
<th>GIP(%)</th>
<th>GFI(%)</th>
<th>Unemployment rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1991</td>
<td>-11.1</td>
<td>-17.4</td>
<td>-12.8</td>
<td>21.0</td>
</tr>
<tr>
<td>1992</td>
<td>-27.0</td>
<td>-22.9</td>
<td>-21.0</td>
<td>24.8</td>
</tr>
</tbody>
</table>


*Note:* GNP = Gross National Product, GIP = Gross Industrial Production, GFI = Gross Fixed Investment.
have been the motor of reforms. Managers’ interest in keeping the privileged position they had acquired during ‘real self-management’ and the non-existence of a more significant social group whose specific interest would be privatisation were additional negative factors.

The federal programme of privatisation

The rapid changes which were taking place at the same time in Eastern Europe gave impetus to the unprecedented transformation of the economic and political structure in SFRY. The reforms announced in 1988–89 reflected the given equilibrium of political forces. The equality of all property forms, including private property, was proclaimed. However, the concept of social property remained untouched (according to the official definition in the former system, it ‘belonged to no one and to everyone’; this sophism in practice meant political control over enterprises). The enterprises were proclaimed autonomous, but with the ‘obligation to help other enterprises which were in economic difficulties, if this was in the social interest’ (the political elite, naturally, was to judge the social interest). This meant that most of profits, as well as losses, continued to be redistributed by the state. Transformation of the existing property relations (privatisation) was not on the agenda (according to the Constitution, ‘a social enterprise may be sold to a private person only if it is not attractive to the social sector’). Even worse, no economic stimulation of the new privately owned firms was envisaged. The absolute job protection was lifted, but without any consequence because no one in ‘social firms’ dared to lay off employees in a situation of decreasing living standard. In addition, enterprises had to find new jobs for employees who became ‘technologically surplus’. The real change was offered to foreign investors because profit transfer was permitted, together with their right to ‘participate in the management’ of the firm (the practical consequences of this change were minimal since foreign capital showed negligible interest in investing). At the same time the deep structural crisis of the Yugoslav state and society continued. The political side of the story is well known.

The economic side—concerning the privatisation process in particular—is well illustrated by the following facts: the ‘Law on circulation of social capital’ initiated the institutional basis for privatisation in 1989, and the ‘Law on social capital’ finally laid it down in 1990. We may summarise the most important characteristics of the latter law as follows. The autonomous right to decide on a change in their property structure was given to ‘social enterprises’ (the right was based upon the constitutional concept of self-management). The strategy of ‘shallow privatisation’ was chosen, in view of the obvious lack of internal savings, and very limited investment interest of foreign capital. Property transformation via internal share holdings gained priority in this way. Significant discounts were granted to employees for buying the shares of their firms (up to 70% of nominal value, with credit over 10 years). It was supposed that a mixed property structure would prevail in the majority of enterprises, but now with owners who could be identified: the decision-making rights were to belong to shareholders, and to boards composed of internal and external members. The former institution of self-management was practically abolished in this way.
It might seem that the optional character of privatisation did not promise its rapid development. Managers who had the real decision-making power inside the firms might easily choose to keep the existing property structure for several possible reasons: to save bankrupt enterprises relying on traditional state financial subsidies; to keep their own command position; to ‘defend’ social property while they—illegally—transferred the capital into their own newly established privately owned firms, etc. (we shall see how widely this last solution was practised). Besides, the status of mixed property in enterprises was unclear at the time (it will soon become clear that this property form also allows very fast transfer of the majority of property rights to the hands of managers).

As a result of the federal law, 169 enterprises in Serbia commenced the process of property transformation in the period August–December 1990. During the first eight months of 1991 the process gathered momentum, with another 1051 enterprises starting the transformation. The federal government, on the other hand, introduced a very simple administrative procedure for the foundation of new privately owned firms. Consequently, thousands of such firms appeared in a very short period: 21,567 private enterprises already existed at the end of 1990, which represented 76.64% of the total number of firms in Serbia. The rapid increase in the number of privately owned enterprises continued during 1991 and the following years. But this picture may be deceptive. Many of these new firms were not economically active. They employed a very small fraction of the total labour force (a few percent), and had 28 times less capital than ‘social firms’. The change, then, was very fast on the surface, but the structure of property relations in the economy did not significantly change yet.

Political struggles in the former Yugoslavia reached their culmination during 1991. The ruling oligarchies of the federal republics fought each other, proclaiming the federal government their common enemy. They introduced ‘republican’ laws on property transformation as a sign of their ‘sovereignty’ (in August 1991 in Serbia). The primary goal of these laws, not only in Serbia, was to secure political control over the economy. So it is no wonder that the new law was more restrictive in comparison to the federal law. Some ideas from the latter were retained (autonomous decision by an enterprise to commence property transformation, and priority of internal share holdings), but important modifications were added. Discounts for employees were reduced, making the purchase of shares more expensive and the change of property form more difficult, while the control role of the state agency for privatisation increased. The proclaimed autonomy of enterprises was thus limited, and an arbitrary role in decision making about property transformation was left to the state (the importance of such power was clearly demonstrated during 1994 and 1995). Also, the ruling strata, which succeeded in keeping power in Serbia, have chosen another tactic for direct economic control: statisation of social property. Accordingly, three parallel processes of change in the property structure of the Yugoslav (FRY, Serbia and Montenegro) economy may be observed: privatisation, statisation of ‘social firms’ and the rise of the ‘pure’ private sector (we shall see that the borderline between the first two processes is not quite clear). These three processes will be briefly analysed separately.
We have already seen that the federal law opened the door for property transformation in ‘social enterprises’ (in 1990), and that during the first year of its implementation more than 1200 firms (or one-third of the total number of ‘social firms’ in Serbia) changed their property structure. The last quarter of 1991 (the period after the introduction of the republican law) witnessed a sharp drop in the number of enterprises transformed: only 34 completed the process (these were firms which finished all the preparations during the previous period). The same slow pace—a consequence of the restrictive law—continued during 1992, with 139 firms completing property transformation. A new impetus arrived in 1993 with hyperinflation (116 trillion %), which dramatically decreased the real cost of shares. According to the law, revaluation of unsold shares was carried out only once a year. As a result, property transformation was accomplished in 465 enterprises. Naturally, monetary stabilisation in 1994 had an adverse influence: the rate of privatisation significantly decreased, with only 46 firms completing the procedure during the first quarter of the year (the last period for which we have the data).

Summarising the process, 684 ‘social firms’ in Serbia (the total number of such firms was 2458 in August 1991) completed property transformation (27.83%), and another 921 (55% of the remaining number) had commenced transformation by May 1994. By industries, 43.07% of firms in trade changed their property structure (38.25% of the remaining number commenced the change) and 33.3% (and 67.35% respectively) in manufacturing. Two elements played a decisive role in the ups and downs of the process: conjunctural events like the short-lived federal legislation and hyperinflation, which showed the immense interest of the majority of employees in property transformation (it is quite another question whose particular interest such transformation may possibly favour; some of the answers we shall see below), and the efforts of the ruling group to slow down the change and keep control over the economy via republican/state legislation.

It may seem at first sight that the former command strata only partially accomplished their goal of limiting the structural change. But the importance of the fact that these strata retained their politically dominant position must not be overlooked here. Two consequences of this fact have to be stressed. First, in some cases even the transformation of property form (‘privatisation’) does not mean that the state lost ultimate control over an enterprise. This is because of the former financial dependency of enterprises upon banks (not only for investment capital but even to pay the wages and salaries of their employees). Many of them were in debt, and the transformation of these debts into shareholdings made banks the owners of controlling blocks of shares in the enterprises and, additionally, brought bank managers onto the boards of the firms. The low profits and even losses of many firms during the permanent economic crisis are prolonging this debt trap. Big banks, on the other hand, are still under complete state control (with the exception of a few private banks which are not, however, involved in investment business). In other words, property transformation of many (especially big) enterprises, via incorporation, in reality means that state control became indirect instead of direct.

An even more important demonstration of the continuing political power over the
economy came in the summer of 1994, when an opposition party (Democratic) introduced in Parliament a proposal for a law on revaluation of property rights in enterprises. The intention of the proposal was to correct the ‘injustices’ of the privatisation process during the previous period of hyperinflation, when managers seized the opportunity to buy up company shares at negligible price and so to take over majority ownership of former social capital for a trifle (the employees were unable to participate in the process because of their total pauperisation). The ruling Socialist party immediately understood the potential of the law, and it passed in Parliament with some ‘minor corrections’. As a result of the procedure of property revaluation, the great majority of enterprises in which ownership was previously transferred into private hands have been ‘re-socialised’. Briefly, by 1994 privatisation was completed in 1785 enterprises; under the Property Transformation Revaluation Act the privatisation was annulled in 1556 or 87% of transformed enterprises, employing 80% of the labour force in Serbia. The state privatisation agency (implementing an arbitrary state policy) declared property transformation legally proper and fit in only 222 exclusively small enterprises. In other words, the bulk of the economy has been returned to—more or less direct—state control (Table 4). This all means that, in the middle of 1995, property relations in the majority of Yugoslav enterprises have resumed their ‘undefined’ legal ownership form. Only one difference remained in comparison with the former socialist regime: the formal authority rights of managers have been significantly increased, i.e. the self-management rights of employees have been abolished.

**TABLE 4**

| Structure of Yugoslav (Serbia and Montenegro) Economy—Capital in % |
|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Social capital              | 88.8 | 79.4 | 43.5 | 81.9 |
| Shares                      | 6.1  | 13.4 | 16.9 | 12.5 |
| Investments                 | 3.5  | 3.9  | 3.6  | 3.4  |
| Private capital             | 1.6  | 3.3  | 36.0 | 2.2  |
| Total                       | 100  | 100  | 100  | 100  |


**Statisation**

The institutional self-management structure of property relations in SFRY put the former ruling class in a paradoxical position: it had real command authority over the economy, the state being the principal commanding instrument; however, formal property rights belonged to the powerless subjects of the state. The paradox was useful to the ruling class (owing to the legitimising role of self-management) as long as its real social position was not endangered. But changes in the reproduction mechanisms of the social system at the end of the 1980s revealed the internal weakness of the paradox (‘power without property’). The socially dominant (former command) group lacked formal instruments for economic control, in a situation of rising political competition (with multi-party elections and an insecure majority in
Parliament) and a growing private sector in the economy (with social ownership completely delegitimised). So it is no wonder that, from the very beginning, institutionalisation of privatisation in the FRY was accompanied by different forms of statisation of property in some sectors of the economy, under the joint label of ‘property transformation’.

The forms of statisation include direct transfer of some big enterprises into ‘public firms’ (electricity, transport—railway and airline, oil, forestry, water supply, communications, radio and television, etc.), creation of firms with ‘mixed property’ in which the state is practically the sole owner (steel, metal industry, electronics, etc.), organising ‘mixed property’ firms in which banks, under state control, hold the majority block of shares (big banks themselves belong to this category; the state controls them via the founding capital of big enterprises which are in state ownership), and keeping the previous social ownership, without defined property rights (these firms are under managerial control, while managers are appointed by the state apparatus, usually indirectly—through bank-controlled boards; as we saw, during 1995 a majority of firms have been ‘re-transformed’ into this status).

The first two forms of statisation are relatively clearly institutionalised, so that precise data about them are available. At the end of 1992 this transformation was completed, and their share in the FRY economy is shown in Table 5.

Some characteristics of these firms are common to the public sector in many countries at a similar level of development: they are capital-intensive, with low profits and big losses. The relative number of employees in the public sector does not seem particularly high, but if we add to it the number of employees in the sector with mixed ownership (with state capital), and especially the rising number of enterprises with indirect state control, we may conclude that the state in FRY retained, or has been regaining, an absolutely dominant role in the economy. It is quite obvious that in the situation of a closed economy, due to UN sanctions, in which the laws of the market may only partially function, the tendency toward statisation will continually gain strength.

We may add here that in 1994 public capital increased to 44%, and the next year, owing to the Privatisation Revaluation Act, the process of re-statisation of capital was completed (see Table 6).

**Rise of the private sector**

It is a well known fact that a private sector always existed in SFRY, in the framework of the socialist economy (especially in agriculture, but also in services, handicrafts,
etc.). However, its size was limited (land maximum, small number of employees, etc.), and its legitimacy was continually questioned. This situation started to change rapidly at the end of the 1980s. The number of privately owned firms increased dramatically in a few years, as we saw. Both the previous inhibiting factors were changing: privately owned firms gained equal legal rights with ‘social enterprises’, while the value system shifted toward the legitimacy of private business: some successful entrepreneurs were hailed as heroes of the day. The long-term relative openness of Yugoslav society to the West helped many people with different levels of education, professions and social status to take the risk of entering private business, or at least to make the first step in this direction, such as registering a firm under the liberal federal law. Shortage of capital, fast circulation of money, and high profits—a consequence of the rising demand, on the one hand, and of many legal loopholes created because of the rapid changes in the legal system, on the other hand—oriented the new initiative into the trade and service sectors.

In 1991–92 the dismemberment of the state, civil war, and UN sanctions against FR Yugoslavia (Serbia and Montenegro) created new conditions for the rising private sector. Two elements are particularly important here: the breakdown of normal economic life, and the disruption of the legal system in the country. As we have already seen, commodity exchange between (former) Yugoslav republics did not cover a high proportion of GNP in SFRY (see Table 1). Republican oligarchies had insisted upon self-sufficiency—which in reality meant tightly controlled national economies—since the end of the 1960s. However, some division of labour between republics did exist in many vital sectors. Generally, food, raw materials and energy were coming from southern parts, while light industry was developing in northern parts of the country, in Slovenia and Croatia. The civil war broke these economic relations, while foreign currency reserves were exhausted during the previous period (1989–91). A significant drop in GNP resulted. While re-orientation of industrial production is a much more difficult and long-term task, immediate needs were urgent. The only way to satisfy these needs was to mobilise a part of the foreign currency reserves which the population kept at home (via the black market and the new private banks promising enormous interest rates), and to lean on private import enterprises, which could circumvent the external blockade much more effectively using various illegal methods. The destruction of the legal system, consequently, has been the conscious product of the state. Criminalisation of the state apparatus and legitimisation of criminal practice started to appear as the new system of social organisation.

It was clear, thus, even to the ruling hierarchy, that if the rigid structure of the command economy was retained, the ‘emergency measures’ could not stop radical

TABLE 6

<table>
<thead>
<tr>
<th>DISTRIBUTION OF FIXED CAPITAL IN SERBIA</th>
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<tbody>
<tr>
<td>(1995) (% )</td>
</tr>
<tr>
<td>----------------------------------------</td>
</tr>
<tr>
<td>Public and social property 81.6</td>
</tr>
<tr>
<td>Mixed share-holding 13.3</td>
</tr>
<tr>
<td>Foreign capital 2.9</td>
</tr>
<tr>
<td>Domestic private capital 2.2</td>
</tr>
</tbody>
</table>

Source: Interview with Miodrag Zec, Politika, 16 September 1995.
deterioration of the economic conditions in the country. Private initiative, which is much more flexible, was indispensable, and the ‘fragility’ of the legal system secured a wide space for it. Two types of privately owned firms started to appear in this situation. The first is closely connected with the state. It filled a part of the gap which was the consequence of UN sanctions: import of oil, strategic raw materials, spare parts, etc.; export of anything that would bring desperately needed foreign currencies; keeping the illusion of normal life by supplying some luxuries for decreasing strata of the better off; and giving some additional income—by extremely high interest rates in some banks—to the rest of the population. These enterprises make very high profits, but their position is unstable. The state abandons them as soon as they cannot satisfy the projected goals, and their failure is often followed by public scandals (big private banks being the best example).13 Even if their owners may accumulate personal fortunes, they can hardly continue in business after the scandal. The sub-type of this group of firms we may call war-parasites. Their initial capital is often the result of war robberies. They trade in arms, war materials, stolen humanitarian aid, booty. Some of these activities have been tolerated by the state because of the ‘services’ their owners rendered during the war, others have been simply extra-legal but have not been ‘persistently’ persecuted as long as they were considered ‘useful’ in the time of disturbed legal and value systems; it is not exceptional that some high state officials—ministers, for example—were involved in such activities, which were uncovered by several public scandals. Of course, this sub-group is even less stable than the previous one, and owners of these firms have been trying to ‘re-orientate’ themselves to legal business (at least as a cover for the rest of their operations).

The second group of privately owned enterprises is born on the basis of standard market principles, but in a situation in which the demand for goods and services they supply is defined by the conditions of a closed economy. UN economic sanctions have cut almost all regular connections with the world market and shortages have hit everybody (Serbia always produced surpluses of food, but agriculture depends on the import of oil, chemicals, etc.). The first reaction of the population and the state was to keep the semblance of ‘normality’, with the idea that sanctions could not last long. Small privately owned import enterprises were satisfying demand formed in the previous period. However, the space for these enterprises became narrower as the purchasing power of the population was sharply decreasing, and as the sanctions were tightly implemented. The state was preoccupied with the existing firms in the ‘social sector’—because they represented its source of power, and because of the containment of possible social unrest. It did not stimulate the creation of small productive privately owned enterprises which could produce substitutes for some of the imported goods. Nonetheless, more and more of this type of firms have started to appear naturally, as the response to increasing demand. We may now illustrate the rising number of privately owned enterprises in Serbia (Table 7).

Superficially, the rapid increase in the number of privately owned enterprises brought dramatic change in the ownership structure of the Yugoslav economy: at the end of 1990 and in the middle of 1993 they comprised 76.81% and 92.41% of the total number of enterprises in the country respectively. Also, approximately 125 000 privately owned shops should be added to the previous figures (at the end of 1993). But a more detailed analysis of the data shows that the real strength of the private
sector is very far from the impression suggested by the mere number of firms. Only a quarter of privately owned firms were economically active in 1993. Besides, they employed an extremely modest 2.2% of the labour force in 1990, and 3.7% in 1992 (if employees in privately owned shops are included, the share grows to 7% of the total number of employed; of course, an unknown—but certainly not small—number of people working in privately owned enterprises and shops are not registered, because of high taxes). On average, these firms employed only 2.1 workers in 1993. They had 0.3% of total fixed capital in 1992, but at the same time they earned 18% of total income, 33.2% of profits, and made 2.8% of losses in the economy, while they produced 25% of GNP (privately owned firms contributed 9%, and the rest came from shops).14

According to one minister in the Serbian government, an entrepreneur himself, M. Dukić,15 the private sector gained 55.2% of all profit, earned 29.4% of total income and incurred 13.6% of losses in the Serbian economy in 1994. Its efficiency is in reality much higher than officially recognised: taking the overall index of profitability of investment as equal to 100, the figure for the private sector is 101.3, for the mixed sector 95.6 (5.7 points less) and for social or state property 89.6 (11.7 points lower than in the private sector).16 The high productivity and profitability of privately owned firms (in comparison with public—state, mixed, ‘social’ etc.—firms) is connected, as mentioned before, with their sectoral distribution: 63.8%, 11.2% and only 11.1% were registered in trade, financial and other services, and industry, respectively. This pattern reflects both the initial stage of privatisation in SRY and the conjunctural historical circumstances, namely UN sanctions, with the consequent rising gap between demand and supply, the shortage of capital and insecure conditions of production, and high profits in foreign and domestic black market trade.

The internal organisation of privately owned firms is also a consequence of their origin and business orientation. According to one (of the very few) empirical studies, these firms are very often family enterprises: they employ at least two or more members of the owner’s family.17 This puts the owner in a ‘multi-functional’ position: he performs entrepreneurial, managerial, financial and other tasks, which necessarily lessens his effectiveness. Family relations are also more important for the evaluation of employees’ work performance than their work capabilities. Family members may work harder (and be paid less) than hired people, but their discipline is generally less controllable. Also, the level of formal education of owners/managers in privately owned firms is significantly lower in comparison with managers of public enterprises: in the public sector 88.8% have a university diploma, 10.1% a college degree and only 1.1% are secondary school graduates, in comparison with 43.6%, 28.2% and 28.2% in the private sector, respectively. If we suppose that

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private interest and hard work are not enough (even if they are necessary) for business success, the problem of the long-term efficiency of new privately owned firms is obvious.

Conclusion

The change in the ownership structure of the Yugoslav economy started in the late 1980s. In the beginning it developed in two directions: privatisation of ‘social enterprises’, and a rapid increase in the number of privately owned firms. However, political processes dramatically changed the conditions of property transformation at the beginning of the 1990s. Dissolution of the state, civil war and UN sanctions have drastically worsened economic conditions, while the retention of power by the old ruling group has frozen the political initiative for transformation and brought unfavourable change in the legal system. The increase in the number of privately owned firms continued, but these firms are as a rule small in terms of capital and number of employees, and oriented to trade—which is often highly profitable, as they operate at the margin of or outside the legal system. At the same time, the ruling group completed the statisation of some sectors of the economy, brought under indirect control the majority of the remaining large industrial firms and banks, and practically annulled the fairly advanced process of privatisation in the former ‘social enterprises’. In this way the ruling group retained command over the majority of the economy. Briefly, the two most important features of the previous socialist system—political and economic control over society—have been kept by the old ruling elite in the Federal Republic of Yugoslavia (Serbia and Montenegro). But competitive political and economic elites have been gradually developing, and their institutionalised existence is an indicator of gradual systemic change.

The contradictory development in the process of transformation of Yugoslav society is well illustrated by the Property Transformation Revaluation Act. It was the first and last proposal of an opposition party ever accepted by the Serbian Parliament under the rule of the Socialist party. It was proposed by the Democratic party out of demagogic reasons, but in the era when the population rightly regarded the ongoing privatisation process as robbery. As we mentioned above, in the period February 1993–February 1994 inflation in FR Yugoslavia exploded to 116 trillion%, but even before then it was very high, reaching hundreds of per cent. This enormously decreased the real cost of shares, since, under the law, revaluation of unsold shares was carried out only once a year. The real reason why the ruling elite in Serbia backed the idea of revaluation was not social justice but its own interest: to keep—through statisation—the full control over big enterprises and to resume the clientelism of the previous communist period. Statisation gave the Serbian government the possibility to appoint not only the executive board members but also the director and indirectly the enterprise managerial staff. Membership of several boards gives power but also a very high honorarium. Membership of the managerial staff for persons close to the ruling elite automatically gives access to executive boards of other public and state-owned firms.

With lifting of UN sanctions, however, a moment of truth is coming. Even if the Serbian economy is devastated by the sanctions, the real causes of entropy are rooted
in the previous period of socialist self-management and the so-called ‘contract economy’ introduced in the 1980s. According to official statistical data, in comparison with 1989, industrial production in 1993 was 25%, and per capita GNP only 40% (US$910). Industrial production in the first half of 1994 was only 35% in comparison to 1989. The percentage was approximately the same in 1995. The internal debt of state banks to the Yugoslav population is US$4 billion. The foreign debt is approximately $9 billion. The unemployment rate is 25–30%, plus 800 000 people on ‘forced vacation’ due to UN sanctions (40% of the labour force). At the same time, all the structural reasons which caused the crisis of Yugoslav society and economy remain on the agenda as unsolved issues.

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1 The SFRY, Socialist Federal Republic of Yugoslavia, was the state which existed till June 1991; the FRY, Federal Republic of Yugoslavia, was officially established in April 1992 by two of the six republics of the former Yugoslavia (SFRY). These two republics are Serbia and Montenegro. In its main part, this study deals with privatisation in rump-Yugoslavia, i.e. Serbia and Montenegro.
4 Around a million Yugoslav citizens, including members of their families, live abroad as temporary workers.
5 Borba, 14 May 1991.
12 Ibid.
13 See Milorad Dinkic, Ekonomika destrukcije (Belgrade, 1995).
14 Kisic.
16 Zec, pp. 250–257.
17 Silvano Bolčić, Tegobe prelaza u preduzetničko društvo (Belgrade, 1994).