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ECONOMIC ASPECTS OF BREAKUP OF YUGOSLAVIA

ЕКОНОМСКИ АСПЕКТИ РАСПАДА ЈУГОСЛАВИЈЕ

Summary: *Socialist Federal Republic of Yugoslavia represented a community of six republics with socio-cultural, social and economical differences that increased over the decades, leading to disintegration of the state. Factors that led to the collapse of the state are numerous, such as cultural and religious differences, nationalism, structure and function of the state system, internal and external factors of disintegration, change in the world politics, different levels of economic development of the republics. The economic system of Yugoslavia was based on self-managing model, a hybrid of both capitalism and socialism, which was considered to be the most effective use of capital goods, increasing workforce productivity, distributing the income and creating a product competitive for the domestic and foreign markets. However, this system had tremendous disadvantages which in addition to the changes in the world market led to the state of recession, very high inflation, decrease in workforce productivity and competitiveness of the final products in the markets, eventually resulting in the collapse of the entire system and disintegration of Yugoslavia.*

Keywords: SFRY, disintegration factors, economic system, self-management

JEL classification: E60, O10, O20, P20

Резиме: Социјалистичка Федеративна Република Југославија представљала је заједницу шест република са социокултуролошким, друштвеним и економским разликама које су се повећавале деценијама, што је довело до дезинтеграције земље. Фактори који су довели до распада земље су многобројни, као што су: културолошке и религијске разлике, национализам, устројство и систем функционисања државе, унутрашњи и спољни фактори дезинтеграције, промјене у свјетској политици, различит степен привредног развоја република. Економски систем државе био је базиран на моделу самоуправљања, као хибрид и капитализма и социјализма, за која се сматрало да најефикасније користи средства за производњу, повећава продуктивност радника, врши расподјелу дохотка и ствара производ који је конкурентан на домаћем и иностраном тржишту. Међутим, овај систем имао је великих недостатака који су, поред промјена на свјетским тржиштима, довели до стања рецесије привреде, велике инфлације, пада продуктивности радника и конкурентности финалних производа на тржиштима, што је резултовало колапсом цјелокупног система

Кључне ријечи: СФРЈ, фактори распада, економски систем, самоуправљање.

ЈЕЛ класификација: E60, O10, O20, P20

1. INTRODUCTION

The Socialist Federal Republic of Yugoslavia, which lasted almost 50 years, was one specific social, socio-cultural and economic community of six republics. Today, 24 years after its break-up, it remains a phenomenon and numerous researchers from various fields of social sciences are studying and trying to explain.

The factors that led to the breakup of Yugoslavia are manifold, and it is important to indicate the following: cultural differences between nations, nationalism, the role of certain individuals in the creation and disintegration of Yugoslavia, changes in international politics, characteristics and structural arrangement of the state. These factors had considerable influence in the processes that took place in the former Yugoslavia, however, one could say the main cause of the disintegration of the country was the inefficient and unsustainable economic system which the political elite did not want to adapt to the changes that have occurred after the fall of the Berlin Wall.

This economic system led, over the decades of its operation, to the deviation in all aspects of functioning of the national economy, which was difficult to remove without major structural reforms, finding the most effective model for the privatization of non-core businesses, modernization of production facilities, creating a more efficient labor market, which would include fluctuation of the

workforce in accordance with the needs and possibilities of the economy. While collecting the data, it was difficult to come across relevant data, primarily statistical data, because the authors depending on what country and political elite they come from had their own version of what led to the disintegration of the state, and the economic viewpoint. In consequence this is a synthesis of collected data, applying the comparative method, in order to create a coherent whole that takes into account the most important economic factors that led to the breakup of the country.

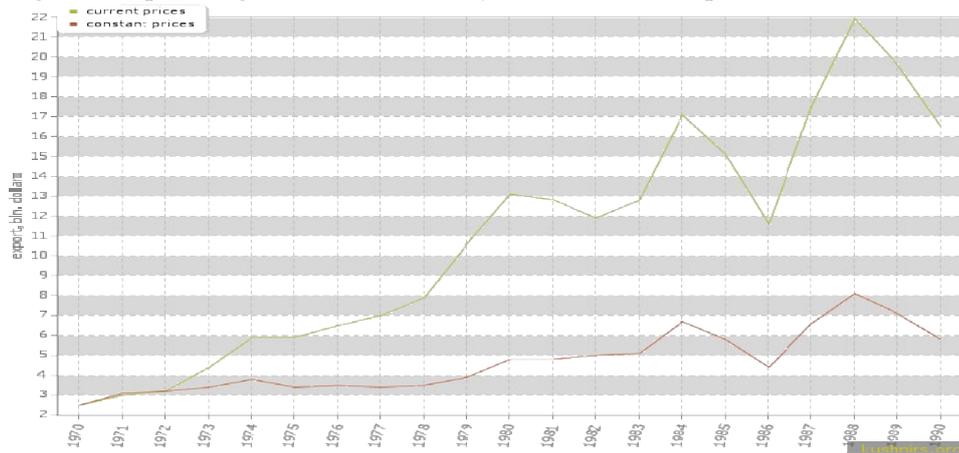
2. ECONOMIC PARAMETERS, STATUS AND DIRECTIONS OF ECONOMIC DEVELOPMENT OF YUGOSLAVIA

In order to identify the economic factors of disintegration of Yugoslavia, it is necessary to consider the events right after the Second World War and economic policy, according to political ideology, which once laid the foundation for the economic development, later led to the failure of the state. In World War II, Yugoslavia suffered heavy destruction of infrastructure, therefore the primary focus of revitalization was on the roads, railway infrastructure and electric power system in order to create necessary conditions to launch other industries. Also, the lack of basic raw materials, fuel and other materials, food and professional staff represented a serious challenge for the government in the early postwar period. It is difficult to provide the production data for the first few years after the war; however, rough estimates indicate that the total production in the second part of 1945 was about one-third of production from 1939. In 1946 the results of the reconstruction of the country were already vivid. The volume of economic activity in 1946 reached a higher level in relation to 1939 by 79% in industry, 69% in agriculture, 80% in traffic, while the construction sector had a 20% higher volume of production compared to 1939.

The big problem in those years was the political relations between the war winning countries which eventually resulted in a bloc division of the world. The most important trade partners of the Kingdom of Yugoslavia were Italy and Germany, and the trend continued after the war; therefore Yugoslavia primarily imported machines for the production from these countries. The resolution of the Informbiro in 1948, when relations between Yugoslavia and the Soviet Union were at the lowest, aggravated an already difficult economic situation in the country. The procurement of machinery for the production in the USSR, the purchase of grains and other necessary raw materials failed to be realized. The Yugoslav leadership had to turn to Western partners, foremost the US, to get grain because the drought in the course of those years drastically dropped their yield. This cooperation later has grown even stronger because the United States considered Yugoslavia as a "buffer zone" between the bloc divisions, giving Yugoslavia the status of the Most Favored Nation.

The entire post-war period, except for the 1990, the economic development and the growth of the GDP was constant and surpassed the pre-war strongly agricultural structure of the economy and population. The industry after 1959 was rated first in terms of production and the domestic product compared to all other industries. So in 1990, as a last stable macroeconomic year, gross domestic product had a growth rate of 6.1 compared to 1952. Fastest GDP growth was in the period between 1957 and 1960, when it stood at the rate of 11.3%p.a., which until then was not recorded in the world economy. With economic growth and thus the domestic product, there has been a considerable progress in elevating living standards of the population. The period up to 1956, due to the redistribution of national income in favor of investment, was characterized by slower growth in living standards. After that, there was significant improvement in the standard of living. The increase in production, national income, employment, labor productivity, growth in real net wages are just some of the factors that led to significant rise of the living standards, therefore the rate of personal consumption had a 5% increasing tendency.

Figure 1 Export Yugoslavia in billions of US dollars in the period 1970-1990



Source: World macroeconomic research 2015

As the most important indicator of economic strength and economic situation in a country, one refers to the balance of payments. Balance of payments of a country is a systematical display of all economic transactions between these countries and the rest of the world (Samuelson and Nordhaus 2000). The analysis of the balance of payments items concluded that the growth in imports slowed down at the end of the 70s, and the 1979 annual export import coverage was 45.8% and 89.8% in 1989.

The following year, a decline in the coverage of imports by exports amounted to 76.35%, due to the reform of the government and the opening of market for imported products, while the economy had neither the capacity nor was able to compensate for the increased domestic demand. Balance of services was at constant growth and significantly reduced the negative balance of payments. Remittances from abroad, primarily from workers who at the beginning of the 60s left Yugoslavia, had a constant growth since the beginning of the 80's and a dramatic fall at the end of the decade when they were at the level of one-quarter of the beginning of the decade. The payment of interest on the debt was at constant growth, due to continued borrowing and was not less than USD 1,000 million, and in 1983 amounted to USD 1,873 million.

2.1. Economic reform in 1964 and the development of self-management system

The economic reform in Yugoslavia conducted in 1964 and 1965 was aimed to revive the economy, which at the time was already showing negative trends. Quick post-war development was realized, first of all, and because of the large US aid, after World War II (the US had Lex specialis PL 480, which referred to the financial aid program to help the friendly countries). After that, the economic growth was realized through external borrowing, and soon after a problem of repayment of these loans occurred.

The aim of the reform was to shift towards a market-oriented economy, abandon the socialist model of the economy, introduce the law for supply and demand, give greater independence and freedom to private capital (revitalization of craft shops and small manufacturing plants) and monetary reform, which included the introduction of the actual exchange rate of dinar and its denominations.

Economic reform started as intended, primarily in terms of strong economic activity and strong growth in foreign exchange reserves. However, this led to major social stratifications and increase in unemployment. The state leaders had to urgently respond, which they did by establishing the open borders for their citizens, prompting many people to go and work primarily in Western European countries. This had a double positive effect, reduced unemployment, and thus the possibility of rebellion and endangerment of the political elites, and an increase in remittances and foreign exchange inflows in the coming years. The reform eventually suffered an inglorious end in the early 70s. The reason for its failure lies primarily with the leadership of the republics, mainly Croatian and Slovenian, for a more independent economic policy, and mainly political one, because it was impossible to carry out the reform in the long term in the country with the control of public property in the sphere of production.

3. DEVELOPMENT OF THE SELF-MANAGEMENT SYSTEM

After World War II, Yugoslavia was the biggest follower of the economic policy of the Soviet Union, which is primarily reflected in the introduction and implementation of the "Petoljetka" – five-year production plans. These plans, with today's point of view, were highly inefficient because they mainly ignored the degree of market demand for products. After the deterioration of relations between the two countries in 1948, the leadership of Yugoslavia was forced to change the economic direction and establish new models on which to base its economy.

The quick industrialization of the country did not give the desired results because it was based on quick transformation of the rural labor to workers in manufacturing plants and collectivization of agriculture. In order to reduce the pressure on the rural area, increase the discipline of the workers, decision-making system and the distribution of income, the party leadership using the method of Edvard Kardelj, developed an economic system called self-management. The system represented some sort of hybrid capitalism, from the standpoint of the market, and state control from the standpoint of personnel politics and development plans of the company and the economy as a whole. Another characteristic of the system was the decentralization of economic activities on economic operators and lower instances of government, instead of federal state.

In the 1974 Yugoslav Constitution, in article 12 it is said that "nobody has the right of ownership of the social means of production, nobody - not even the socio-political community nor the organization of associated labor, nor the group of citizens nor an individual cannot under any legal ownership basis claim the product of social labor, or manage and dispose the social means of production and work, nor arbitrarily determine the conditions of distribution". The self-management socialism represents a broad term that covers a wide range of different solutions for the economic and political system of a country. Ownership over the means of production is one of the most important components of the economy of each country. This can be:

- private, in the capitalist system,
- state, in the socialist structure of the state
- social, in the self-governing socialism

The public property, characteristic of the Yugoslav system of self-management, was an unclear subject and dispute between many economists. This can be simply described as a form of state ownership with control mechanisms by the workers' councils. State ownership in itself can be a source of problems, its ambiguous ownership raises many difficulties, such as work inefficiency, unprofessional management, political abuse, use of certain companies in the populist purposes, etc. (Ristic 2013).

The system of self-government was closer to the centralized type with certain elements of the market and the exaggerated role of workers' councils. The role of workers' councils, in addition to the decentralization of the company from the federal level, is the most important factor of inefficiency, and ultimately, the disintegration of the self-management system.

The workers' councils constituted a council that included all employees in a company, with a very pronounced degree of democratization at the mid and lower operational level. On the strategic level, with respect to the selection of company executives, the main role was played by the political party organizations, without an overt level of democracy.

Thus, the workers' council represented an illusion that all employees equally influenced the company performance. All employees did not have the same level of education, knowledge and experience, and therefore were not able, by economic logic, to make strategic decisions regarding the performance of the company. The most important of such decisions was the redistribution of income. That started with, in addition to lack of education and incompetence of workers at the lower levels, the wishes and preferences of these stakeholders. The workers at the lower levels always demanded the redistribution of income to reflect on their salaries and other benefits rather than investing to modernize production facilities, training of employees or incentives for export activities of the company. For the workers, as individuals, this was correct way of thinking given that with the excess of income they could buy consumer goods and satisfy their needs, renovate their house, build a summerhouse or buy a car. However, in the long run, this way of thinking led to a reduced competitiveness of companies in the domestic, and to a large degree in international markets, and eventually to the extinction of company. This was the base problem of the entire system. Senior management in many cases at the sessions of the workers' council was overruled in choosing between

the two options - continuing development of the company or the paying the salaries and other benefits. However, there were also situations where the Party committees did not ask the employees their opinions regarding the investments, and made these decisions on their own. The workers at the lower levels were not willing or simply did not want to understand, because in such a strong socialist country with pronounced labor unions they were much protected. Such decision left devastating far-reaching effects on the functioning of the entire economic system of the country eventually leading to its collapse.

Yugoslavia had an economy that to a small extent relied on elements of the market economy but with elements of planning and protectionism for the imported products. The self-management increasingly weakened the centralized state and in its weakening there should be sought the main reasons for its dissolution, particularly after 1974 when Yugoslavia ceased to be (at least ideologically) community of South Slavs and became only an ideological project (Stankovic Pejnovic 2010).

The result of self-management, from today's point of view, was the creation of negative tendencies and trends in the economy and the overall social life of generations that have grown up in such system. Inefficient system of economy, education of personnel in accordance with the system, a lack of understanding of basic market postulates and principles, creating a generation of people who grew up with an idea that everything is free (education, health,...), that the state should take care of them and their choices, are just some of the pernicious characteristics in above mentioned system, the consequences which we still feel today, with a tendency of continuity in the future.

4. CRISIS AND ECONOMIC BACKGROUND OF BREAKUP OF YUGOSLAVIA

The economic crisis was continuously present in Yugoslavia at the time of its existence. The reasons are numerous, from basic errors regarding the model of economic development, economic nationalism, erroneous economic reforms, self-management and great influence, and, depending on the Yugoslav economy from developments on the world political scene. These factors, in addition to the constitutional arrangements of 1974 led to the economic collapse at the end of the 80s, resulting in the escalation of nationalism and the collapse of the state. One of the most important factors of disintegration of the country was the economic aspect, because nationalism is not a fertile ground for development in terms of prosperity and growth of the living standards of the population who behave rationally *ceteris paribus*. However, as a subset of the necessary conditions for this biggest event in the recent history of the Slavic south, the economy, as an important part of a larger mosaic of relevant factors, is an element that will not be able to circumvent in any coherent analysis of the ways in which the South Slavs lost their homeland (Madžar 1994).

The period after World War II was the ideal basis for the development of Yugoslavia in effective economic principles, the development of all forms of industry and not ignoring the agricultural production. Almost all countries in Europe were devastated in terms of infrastructure, a unique situation for development that will not happen again for a longer period. Of course, despite the great destruction, they could not economically compete with Germany or the UK, but were able to take the models of economic development of other countries and take advantage of natural resources, the enthusiasm of the population for economic growth and development. However, because of ideology and the ignorance of the political elite, this irreversible chance was missed.

The first phase of development of the country referred to the reliance on Soviet economic ideology. The country's infrastructure was devastated, but with the great enthusiasm of its citizens it developed in the first phase the heavy industry and transport infrastructure as a precondition for the development of other industries. The average growth rate of GDP at this stage, between 1948 and 1965 was 7.5%, and refers to the phenomenon of catching-up effect, because the country was in the so-called zero point of development, and had higher growth rates than the developed countries. The next phase, which referred to the modernization of the country, in terms of developing distinctive industries and thus the product, was never effectively implemented, and therein the negative economic trends since the late 70s lay, after decades of the most prosperous period in the development of the country.

The first major threat to the economy of the country took place with the first big oil crisis in 1973 and 1974. The crisis showed that countries with developed technology and agricultural production were the only ones to benefit. All others, including Yugoslavia, have experienced a major

financial and economic decline. This period was characterized with large investment boom on the global level, with extremely low interest rates in the money market (1975- 5.8%, 1976- 5.1%, 1977- 5.5%). Yugoslavia took advantage of these trends in borrowing and thus drastically increased its debt in the amount of USD 9.5 billion, according to the exchange rate at that time. Borrowing in itself is not harmful, but the most important aspect is the structure of debt. Unfortunately, most of the debt related to the maintenance of standards of the population (the golden 70's), not cost effective and completely erroneous economic projects (making steel mills, factories, aluminum and other metals that are far away from sources of minerals, pulp factories far from the source of raw materials,...) and financing illogical and extremely expensive defense capabilities that not many much richer countries could financially afford (Zeljjava's airport with construction cost of USD 5 billion at that time, as well as the nuclear bunker in Konjic of USD 4.5 billion). By 1991 the Yugoslav debt had grown to USD 20 billion. Previously, the International Monetary Fund reduced the total receivables by USD 1.8 billion because the country simply did not have the funds to restore even the interest, let alone the principal (Mrak 1992).

Table 1: Macroeconomic parameters of Yugoslavia for the period 1980-1990

	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989	1990
Inflation rate (%)	31	39	31	40	54	72	90	120	194	1240	121
Balance of payment deficit (millions of USD)	3891	3728	4012	2958	2723	2374	2054	1811	2382	4215	2360
Annually corporations losses (% GDP)	–	~2,1	~2,1	~2,1	~2,1	2,8	3	6,6	5,7	15	–
Unemployment rate (%)	13,3	13,5	14,1	14,6	15,3	16,0	16,2	15,7	16,4	17,9	20,2

Source: arranged by the author

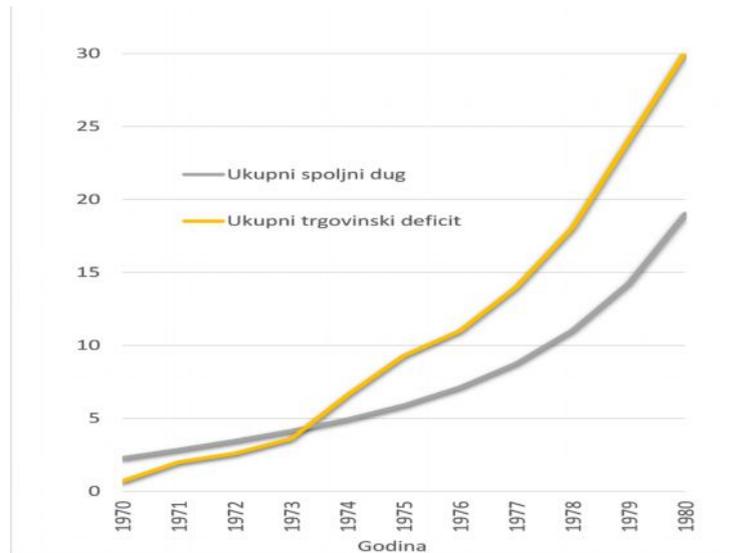
This does not mean that the centrally planned economies, including the Yugoslavian one, did not generate new value, but rather that it was not going in the direction that would ensure the most productive expansion. It was the basic measure of the efficiency of certain investments; if they did not generate the new value, the system would have to "eat" its own substance (Vasic 1994).

Of course, during this period there were great economic projects, particularly relating to cooperation with international companies (TAS and VW, Takovo and Gandola, Kikinda Foundry and GM, Electronic Industry Nis and Siemens, etc.). So there was a paradox that the greatest investment cycle in Yugoslavia ended with a huge crisis.

At the end of 1978 a radical turn in the money and capital market took place. The US government changed the monetary policy still retaining control over money creation, and "dropping" the control over the interest rates which in 1978 rose to 8.8%, in 1979 to 12.1%, in 1980 to 14, 2%, and in 1981 to 16.8%, therefore, the price of the capital increased almost threefold (Bilandzic 1999). The leadership of the country at the time, rather than breaking the trend of borrowing due to negative trends in the money market, continued galloping debt increasing the external debt from US 9.5 billion in 1977 to USD 20.8 billion in 1981. Besides the negative impacts on world markets, in the 70s the essence of economic, apart from political, functions of the country was changed. The Constitution of 1974 and the economic centralization of 1977, led to the collapse of the economy at the federal level and the development of the economic nationalism, closing of republics within their borders and focusing on their own interests, often at the expense of other republics and the federal state. These two documents prevented the Federal Executive Council (SIV) to lead an independent fiscal policy, but all the decisions were made by consensus, half of federal revenues from customs diverted to enterprises at national and provincial level.

Moreover, in addition to the National Bank of Yugoslavia, the constitutional arrangements created new eight national banks with complete autonomy in regards to money broadcast. Decisions were made on the federal level by consensus, which meant that if there was no agreement, there was a paralysis in monetary and fiscal policies of the country.

Graph 2: Total trade deficit and external debt of the SFRY in the period 1970-1980



Source: Katalaksija 2014

At the end of 1979, before the outbreak of the crisis, the federal government decided to devalue the dinar by about 30% in order to stimulate exports and more expensive imports in response to a large trade deficit (trade deficit in 1979 amounted to USD 7,225 million and the current account deficit to USD 3.661 million) and large repayment of foreign loans.

The devaluation of the dinar continued until the disintegration of the state and did not bring the expected effect. The effects of devaluation depend on the ability of the domestic economy to provide sufficient export surplus due to an increased foreign demand, and above all, on the quality (Stojanov 2000). The result of devaluation was the galloping inflation, since the domestic economy was not able to meet its production capacity, in terms of quantity and quality of products, for the increased international demand.

In the early 80s there was a total collapse of the economic system due to the impossibility of repaying loans to foreign creditors. Between 1982 and 1986 all the foreign exchange reserves were consumed, in the amount of USD 4.5 billion, in order to pay back the foreign loans. In order to get the foreign exchange the companies had to sell their goods below market prices to compensate for the pricing policy of goods sold in the domestic market. High inflation had a negative impact on the balance of companies and banks, which led to a major drop in exports of goods and services amounting to about 20% of real GDP. The consequences were that Yugoslavia, in those years lost about 14% of the national income at the federal level.

One of the significant factors for the development of the economic nationalism during those years was the Fund for underdeveloped regions, through which they transferred financial resources from developed regions (Slovenia, Croatia and part of Serbia) in the underdeveloped areas of the country (Bosnia and Herzegovina, Kosovo and Metohija, Montenegro, Macedonia). These funds were not efficiently consumed. They were used to maintain apparently a stable standard of living and to create the political economy without economic justification and any chance of business success, which led to an increase in the gap between the republics and the creation of a bad climate in terms of financing of the State and the economy as a whole.

The average annual growth rate of domestic products in the period 1947-1990 were following: Slovenia 4.8%, Croatia 4.5%, Bosnia and Herzegovina 4.3%, Macedonia 4.8%, Montenegro 4.2%, Serbia 4.5% with reference to Vojvodina 4.5%, central Serbia 4.5% of the Kosovo and Metohija 4.0%. (Vukovic 2011) The federal government sought in every way to stimulate exports, protectionist measures stop imports and thereby stimulate economic development. This led to the disappearance of consumer goods, including oil and oil products, which had a very negative impact on the country's international image. As a result of this situation, the republics closed within their own economic borders and they blocked the internal trade and capital flow. There was an increase in foreign indebtedness of all the republics which, based on the decisions of the Federal Executive Council, were

free to borrow from the international money markets without established criteria for borrowing and loan repayment plan. The burden of loan repayment fell to the federal state even though it had no control over borrowing and use of funds which were widely used by the republics.

In the mid 80s there was a major problem with the reconciliation of the federal budget and ways of borrowing and repayment of foreign debts. Federal Executive Council tried to solve this problem by putting the three-year moratorium on debt repayments to the Paris Club creditors. After this attempt failed, to prevent economic collapse of the country, the Federal Executive Council agreed with the MMF so called „May’s Package Deal” that had strict control over federal spending, freezing salaries, opened economic markets to foreign investment and more flexible conditions for investors in terms of layoffs and their salaries. Because of the complicated parliamentary procedures, these measures were adopted only a year after the adjustment with the MMF at the end of 1988. However, the main problem of all these measures was the high inflation, because the funds instead of modernizing the economy and increasing competitiveness mainly went to maintaining the standard of living, the wages of workers who were higher than their productivity. After the arrival of Ante Markovic to head the Federal Executive Council, and his „Economic reform Program and measures for its implementation”, the direction of the previous Government was continued, in terms of conditions of the arrangement with the MMF. Markovic thought that he must let the inflation be in order to compel the political consensus for the reform. Inflation was at that point 121.3%, which led to the loss of the companies of 15% of GDP.

Beginning of his reforms, engaging the world experts such as Jeffrey Sachs, who were closely followed by the media, gave hope to the citizens in the recovery of the economy and the disappearance of inter-ethnic tensions. However, it was just one big illusion that Markovic himself admitted in late 1990. The economic reform agenda consisted of creating the new markets for imported goods. The "free shops" were open where one could buy foreign, mainly technical items for dinars. The agreement with the MMF bounded upon freezing of salaries for the period of four months, however, as soon as funds became operational, companies and public institutions increased their salaries, which were economically unjustifiable and absolutely absurd.

Table 2: Comparison of exports of Yugoslavia and neighboring countries

Year	Italy	Austria	Greece	Yugoslavia	Hungary	Bulgaria	Romania	Albania
1970	17.2	4.2	1.2	2.5	1.7	3.3	0.34	0.52
1980	96.3	26	12.9	13.1	8.8	4.1	7.7	0.51
1990	215.7	59.4	16.9	16.5	10.4	7.2	6.3	0.33

Source: World macroeconomic research 2015

The program's projections for 1990 were as follows: the GDP will fall by 2%, the inflation rate will exceed 13%, imports increase by 16% and 8% growth in exports, increase in foreign exchange reserves of 2.3 billion of dollars, the balance of payments surplus of USD 1,3 billion (Stojanovic 2007). In the beginning of 1990, the dinar denomination took place and introduction of a new official currency rate of 1 DM = 7 DIN. Federal Executive Council argued that the basis for the stable exchange rate of foreign exchange reserves which were rapidly increasing, in the middle of that year amounting to USD 10 billion. However, this increase was only one of the accounting acrobatics that suited the federal authorities. The increase in reserves was due to the inflow of foreign capital at the expense of the imported goods (which accounted for 95% of consumer goods available in the market) with deferred payment and advance payments for deliveries of domestic goods in the future. Thus, the foreign exchange reserves in just a few months went from USD 10 to 7 billion and the current account deficit at the end of this year totaled USD 2.36 billion instead of the projected surplus of USD 1.3 billion. At the end of the year, the dinar was again devalued. Another rate was determined in the amount of 1 DM =9 DIN, and the restrictions on raising large amounts of foreign currency were introduced.

The financial collapse that occurred in early 1991, started with the National Bank of Serbia joining the payment system of Yugoslavia and broadcasting DM 2 billion for the payment of subsidies to farmers, increase of the liquidity of banks and the payment of wages, which led to the paralysis of movement of all financial resources, raw materials, and consumer goods between the republics. This was a terminal and irreversible phase of disintegration of the country, whose problems were much

deeper, objectives systemically poorly defined and directions of economic development inefficiently managed, in order to ensure a sustainable economic growth, raising living standards of the population that resulted in the elimination of inter-ethnic tensions in the country.

5. CONCLUSION

The former Yugoslavia, which was the object of aspiration of Yugoslav ideologists to unite all the people who live in this region, trod a thorny path characterized by turbulences in many aspects of life that were artfully concealed and that ultimately caused the disintegration of the country. After World War II, the political elite felt that the most effective model of economic growth was the Soviet model, which they took over and rigidly implemented. After bilateral tensions Yugoslavia turned more towards the US and its allies, of course, without breaking off the relations with USSR. Help from the West was needed in order to build the war-destroyed country, launch the economy and increase the standard of living.

And the United States liked this position of Yugoslavia, especially after the establishment of the Non-Aligned Movement, which was richly rewarded in the form of grant funds and the status of most favored nation, which only had Yugoslavia.

Yugoslavia continued its direction of the economy, ignoring the socialist and capitalist types of economy, and introduced a model that represented the sublimation of both types of economic arrangements. Funds that were coming from the West in large quantities, especially after 1948, were not invested to build recognized industries or to give a new impetus to the national economy. Ignorance and ideological assumptions of the main ideologists responsible for the direction of economic development of the country resulted in a large number of unsuccessful reforms and creation of until then the only economic model - self-management. The system of self-management had a system error in the political conduct of companies and redistribution of income. Redistribution of income was not, for the most part, used for new investments, modernization of production and to increase the competitive position of enterprises on the international market, but to pay the wages to workers. In such situation, the economy became more and more uncompetitive.

Borrowing, as a factor of economic growth and development, also did not have positive effects. In addition to several strong industries, which could not compensate for the majority of non-competitive industry, this led the country into a spiral of debt that could not be serviced without additional borrowing. Of course, in addition to the criticism mentioned above, the system had its good sides. It allowed the people from rural areas to study at the expense of the state, which was not possible in the previous state. Besides, Yugoslavia had only 7% of university-educated population compared to the European average of about 30%. The system discouraged highly qualified and skilled staff, because it did not allow progressive rewards in accordance with the knowledge, skills and productivity. Furthermore, good sides of the system from the population standpoint included free health care, social security, workers housing, sense of security, because the state largely took care of the ordinary people in many aspects of life. However, the economic potential of the country and foreign non-competitiveness of the economy could not sustain such level of standards of the state and the population which inevitably led to the collapse of the system. Yugoslavia, quite simply put, lost the purpose of its existence at the fall of the Berlin Wall, because it was no longer a significant factor in the bloc division of the world. United States abolished all forms of financial assistance which made it very difficult in an already difficult situation in the country. The Reagan administration in 1984 issued a directive NSC NSDD 133 which defines that the US would help only the republics aspiring to the market economy, with the privatization of strategic industries. All the above-mentioned external factors, in addition to the aforementioned internal deviations led Yugoslavia into a dead end at the beginning of the 90s, which resulted in the disintegration of the common state.

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