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Economic reasons for the break-up of Yugoslavia

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ABSTRACT

The history of Yugoslavia continues to attract academic attention more than twenty years after the violent break-up of this federative state. Analyzing why it happened can be instructive in dealing with many unsolved problems in the region. The article will argue that deteriorating economics triggered all other factors leading to eventual disintegration of Yugoslavia. Specifically, during the 1980s external and internal economic imbalances, coupled with substantial regional disparities, resulted in a situation which was no longer acceptable to some constituent republics, especially the wealthier ones. Unfortunately, their secession was followed by a violent conflict which still resonates throughout South-Eastern Europe.

The phenomenon of Yugoslavia, a multi-ethnic state of 23 million people (1989) known for its alternative socialist development model that proved quite a success for more than 30 years, has aroused interest of many social scientists. Its remarkable economic growth coupled with non-alignment foreign policy made this federation of Balkan people a unique case at the time. For several decades after the Second World War Yugoslavia featured robust economic growth based on rapid industrial development and gradual trade liberalization, at the meantime providing extensive social benefits for its citizens. However, this federative state did not last – with the waning of communism all over Eastern Europe not only had communism fallen in Yugoslavia, but this had also been followed by some of the most anti-human events in the postwar period, leading to a vicious breakup of the federation into several smaller states. There are different theories attempting to explain why such a proud and economically successful multi-ethnic country all of a sudden transformed itself into a place full of intolerance, ethnic conflicts and violence. This paper will seek to reveal that it was economic reasons that served as a trigger in the process of Yugoslavia collapse in the early 1990s.

1. Main approaches explaining Yugoslavia's break-up

In the last two decades, particularly in the late 1990s, an extensive body of academic literature was produced trying to explain the break up of Yugoslavia (Djokic and Ker-Lindsay, 2011; Dragnich, 1995; Lukic and Lynch, 1996; Rogel, 2004; Stojanovic, 1997). Several lines of thinking could be discerned in such writings, with Dejan Jovic (2001; p. 101) from the University of Stirling identifying as many as seven "major types of arguments" relevant in this regard:

(1) the economic argument;
(2) the "ancient ethnic hatred" argument;
(3) the "nationalism" argument;
(4) the cultural argument;
(5) the "international politics" argument;

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(6) the “role of personality” argument;
(7) the “fall of empires” argument.

Despite the fact that economic argument features first in the above list, it has seldom been sufficiently emphasized in the available English-language literature on Yugoslavia, as most authors preferred to study apparently more exhilarating arguments, ranging from “ancient ethnic hatred” to the “fall of empires” as the list above suggests. While some of them, such as the “ancient ethnic hatred” or the “fall of empires” ones, do not seem to be quite relevant for “strictly academic debates” at all, others, such as the “nationalism”, “cultural” or “international politics” arguments appear more plausible.

In fact, all these arguments can fall into a line of thinking which emphasized political factors in the break up of Yugoslavia. For example, Carole Rogel (2004; p. 41) suggested that political factors, that is, a dysfunctional political system, were at the core of Yugoslav crisis. Indeed, there is some evidence showing how one-year presidencies coupled with the system of consensus and multiple institutions were making it less and less clear who was in charge of Yugoslav politics and economics. However, if the problem was only with the system of government – why not reform it to a more centralized one, so that everything could become clear? Why, instead, the constituent republics wanted to be independent as the situation worsened?

Ideally, people should live in peace, hence any reasons to go for war must be strong enough to induce individuals for violent conflicts. Such reasons must be particularly strong when there is a blood-spattered war among people who for several decades lived in one state, spoke similar language, shared common culture and were considered a post-war socio-economic and political success story, as seemed to be the case in former Yugoslavia. Attempts to explain the belligerent break-up of this country in the early 1990s only by political, historical, nationalist or cultural factors, however well-grounded and logical they may be, do not appear sufficient. For it seems that at the bottom of Yugoslavia’s crisis twenty years ago laid socio-economic problems that developed for some time before and burst out at the time of communist disintegration in Eastern Europe. Analyzing these socio-economic imbalances of Yugoslavia’s break-up should help to see more clearly why popular discontent in that country had to transform into gory wars.

2. Imbalances in the postwar Yugoslav economy: external debt

Yugoslavia’s economy was in many ways unique. Formally based on Marxist ideals, in reality it was perhaps more Westernized than any other socialist economy, with market even accepted as “a constituent element of the economic system” in 1974 constitution, something utterly inconceivable in the case of the Soviet Union (Schrenk et al., 1979; p. 67). This might have been the outcome of the country’s early split with the Soviet Union, but could have been also predetermined by its complex history and national make-up, as well as personal convictions of Yugoslav leaders, notably Marshal Josip Broz Tito. At any rate, following its independent socialist development strategy, Yugoslavia sought to maintain good relations both with the West and the East (Woodward, 1995; p. 29). Among other things, this policy allowed the country to benefit from Western sources of financing for its development projects despite formally socialist status. For example, as a result of the break with Cominform in 1948, Yugoslavia reportedly received as much as 2 billion USD of aid from the U.S. alone from 1949 to 1961 (Schrenk et al., 1979; p. 218). In addition to U.S. aid, including that received through the Marshall Plan, Yugoslavia was actively importing private capital from West European banks, as well as drew on official financial support from the World Bank (Schrenk et al., 1979; pp. 218–219). Indeed, it was noted that Yugoslav dependence on foreign capital in the 1950s and early 1960s was so high that without it the country’s industrialization would have been much slower and far less spectacular (Dyker, 1990; Gnjatovic, 1985). For instance, Susan Woodward (1995; p. 226) argued that ‘despite Yugoslavia’s maneuverability among global markets… the credits, capital goods and intermediate materials on which the economy relied came largely from Western, hard-currency market’. And it is actually in the 1960s that Yugoslavia started to experience problems on global financial markets:

> In 1961 the current account deficit reached $250m… Worse was to follow as another big deficit in 1964 left Yugoslavia unable to meet its external financial commitments. This was the first of Yugoslavia’s post-war debt-service crises. It was not a particularly grave crisis… the total debt in 1964 was only just over $800m. But it forced Yugoslavia, not for the last time, to go to the IMF for help (Dyker, 1990; p. 62).

During the 1970s, Yugoslavia continued to rely on Western finance to cover both its investment needs and current account deficits. It was estimated, for example, that between 1950 and 1975, foreign credits covered nine tenths of the deficit on current account (Gapinski et al., 1989; p. 156). But such a heavy reliance on Western finance served Yugoslavia badly in the 1980s, when borrowing terms on global financial markets were tightened as a result of neo-liberal macroeconomic turnaround. During the decade preceding the start of the developing world debt crisis in 1982, the federation saw a nearly five-fold increase of its external debt, which rose from 3.4 billion USD in 1972 to 16.1 billion in 1981 (World Bank, 1983; p. 284). Whereas in the late 1960s the bulk of Yugoslav external debt was contracted from public sources on relatively favorable terms, in 1982 the share of public sources stood only at one fifth, which meant that most of the country’s new debt commitments came from private sources and on generally less favorable terms, which were also more sensitive to volatility on international financial markets. For example, in 1981 the average rate of interest paid by Yugoslavia on loans from private sources reached nearly 20%, whilst ten years prior to it was about 7% (World Bank, 1983; p. 285). As a result, total debt servicing soared from just over 200 million USD in 1972 to as much as 4 billion USD in 1982, the latter amount split almost evenly between interest and principle repayments (World Bank, 1983; p. 285; World Bank, 1990, p. 414). Not surprisingly, then, that Yugoslavia was