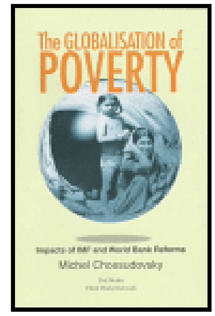
How the IMF Dismantled Yugoslavia

by Michel Chossudovsky

READ Chossudovsky's earlier article on the IMF, "Financial Warfare"



[AUTHOR'S NOTE: A more detailed version of this article is contained in "The Globalization of Poverty, Impacts of IMF and World Bank Reforms" (1997, Zed Books).

Macro-economic reforms imposed by Belgrade's external creditors since the late 1980s had been carefully synchronized with NATO's military and intelligence operations. Resulting from the IMF's deadly economic medicine, the entire Yugoslav economy had been spearheaded into bankruptcy.

In Kosovo, the economic reforms were conducive to the concurrent impoverishment of both the Albanian and Serbian populations contributing to fueling ethnic tensions. The deliberate manipulation of market forces destroyed economic activity and people's livelihood creating a situation of social despair. In parallel with the destruction of federal Yugoslavia, similar macro-economic reforms under IMF auspices were imposed on Albania with devastating economic and social consequences.]

As heavily-armed U.S. and NATO troops enforce the peace in Bosnia, the press and politicians alike portray Western intervention in the former Yugoslavia as a noble, if agonizingly belated, response to an outbreak of ethnic massacres and human rights violations. In the wake of the November 1995 Dayton peace accords, the West is eager to touch up its self-portrait as savior of the Southern Slavs and get on with "the work of rebuilding" the newly sovereign states.

But following a pattern set early on, Western public opinion has been misled. The conventional wisdom holds that the plight of the Balkans is the outcome of an "aggressive nationalism", the inevitable result of deep-seated ethnic and religious tensions rooted in history. Likewise, commentators cite "Balkans power- plays" and the clash of political personalities to explain the conflicts.

Lost in the barrage of images and self-serving analyses are the economic and social causes of the conflict. The deep-seated economic crisis which preceded the civil war is long forgotten.

The strategic interests of Germany and the U.S. in laying the groundwork for the disintegration of Yugoslavia go unmentioned, as does the role of external creditors and international financial institutions. In the eyes of the global media, Western powers bear no responsibility for the impoverishment and destruction of a nation of 24 million people.

But through their domination of the global financial system, the Western powers, in pursuit of national and collective strategic interests, helped bring the Yugoslav economy to its knees and stirred simmering ethnic and social conflicts. Now it is the turn of Yugoslavia's war-ravaged successor states to feel the tender mercies of the international financial community.

As the world focuses on troop movements and cease fires, the international financial institutions are busily collecting former Yugoslavia's external debt from its remnant states, while transforming the Balkans into a safe-haven for free enterprise. With a Bosnian peace settlement holding under NATO guns, the West has unveiled a "reconstruction" program that strips that brutalized country of sovereignty to a degree not seen in Europe since the end of World War II. It consists largely of making Bosnia a divided territory under NATO military occupation and Western administration.

NEO-COLONIAL BOSNIA

The reins of economic policy handed to the IMF

Resting on the Dayton accords, which created a Bosnian "constitution," the US and the European Union have installed a full-fledged colonial administration in Bosnia. At its head is their appointed High Representative, Carl Bildt, a former Swedish prime minister and European Union representative in Bosnian peace negotiations. Bildt has full executive powers in all civilian matters, with the right to overrule the governments of both the Bosnian Federation and the Republika Srpska. To make the point crystal clear, the accords spell out that "The High Representative is the final authority in theater regarding interpretation of the agreements." He will work with IFOR's Military High Command as well as creditors and donors.

The UN Security Council has also appointed a "commissioner" under the High Representative to run an international civilian police force. Irish police official Peter Fitzgerald, with previous UN policing experience in Namibia, El Salvador, and Cambodia, presides over some 1,700 policemen from 15 countries. The police will be dispatched to Bosnia after a five-day training program in Zagreb.

The new constitution hands the reins of economic policy over to the Bretton Woods institutions and the London-based European Bank for Reconstruction and Development (EBRD). The IMF is empowered to appoint the first governor of the Bosnian Central Bank, who, like the High Representative, "shall not be a citizen of Bosnia and Herzegovina or a neighboring State."

Under the IMF regency, the Central Bank will not be allowed to function as a Central Bank: "For the first six years . . . it may not extend credit by creating money, operating in this respect as a currency board." Neither will Bosnia be allowed to have its own currency (issuing paper money only when there is full foreign exchange backing), nor permitted to mobilize its internal resources. Its ability to self-finance its reconstruction through an independent monetary policy is blunted from the outset.

While the Central Bank is in IMF custody, the European Bank for Reconstruction and Development (EBRD) heads the Commission on Public Corporations, which supervises operations of all public sector corporations, including energy, water, postal services, telecommunications, and transportation. The EBRD president appoints the commission's chair and will direct public sector restructuring, meaning primarily the sell-off of state and socially-owned assets and the procurement of long term investment funds. Western creditors explicitly created the EBRD "to give a distinctively political dimension to lending."

As the West trumpets its support for democracy, actual political power rests in the hands of a parallel Bosnian "state" whose executive positions are held by non-citizens. Western creditors have embedded their interests in a constitution hastily written on their behalf. They have done so without a constitutional assembly, without consultations with Bosnian citizens' organizations and without providing a means of amending this "constitution." Their plans to rebuild Bosnia appear more suited to sating creditors than satisfying even the elementary needs of Bosnians.

And why not? The neo-colonization of Bosnia is the logical culmination of long Western efforts to undo Yugoslavia's experiment in market socialism and workers' self-management and impose in its place the diktat of the free market.

THE SHAPE OF THINGS TO COME

Yugoslavia's implosion was in part due to U.S. machinations during the Reagan years

Multi-ethnic, socialist Yugoslavia was once a regional industrial power and economic success. In the two decades prior to 1980, annual GDP growth averaged 6.1 percent, medical care was free, the literacy rate was of the order of 91 percent, and the life expectancy was 72 years. But after a decade of Western economic ministrations and five years of disintegration, war, boycott, and embargo, the economies of the former Yugoslavia are prostrate, their industrial sectors dismantled.

Yugoslavia's implosion was in part due to U.S. machinations. Despite Belgrade's non-alignment and its extensive trading relations with the European Community and the U.S., the Reagan administration targeted the Yugoslav economy in a "Secret Sensitive" 1984 National Security Decision Directive (NSDD 133), "United States Policy toward Yugoslavia." A censored version declassified in 1990 largely elaborated on NSDD 54 on Eastern Europe, issued in 1982. The latter advocated "expanded efforts to promote a 'quiet revolution' to overthrow Communist governments and parties" while reintegrating the countries of Eastern Europe into a market-oriented economy.

The U.S. had earlier joined Belgrade's other international creditors in imposing a first round of macroeconomic reform in 1980, shortly before the death of Marshall Tito. Successive IMF- sponsored programs since then continued the disintegration of the industrial sector and the piecemeal dismantling of the

Yugoslav welfare state. Debt restructuring agreements increased foreign debt, and a mandated currency devaluation also hit hard at Yugoslavs' standard of living.

This initial round of restructuring set the pattern. Throughout the 1980s, the IMF prescribed further doses of its bitter economic medicine periodically as the Yugoslav economy slowly lapsed into a coma. Industrial production declined to a negative 10 percent growth rate by 1990 -- with all its predictable social consequences.

By cutting the financial arteries between Belgrade and the republics, the reforms fueled secession

MR. MARKOVIC GOES TO WASHINGTON

In autumn 1989, just before the fall of the Berlin Wall, Yugoslav federal Premier Ante Markovic met in Washington with President George Bush to cap negotiations for a new financial aid package. In return for assistance, Yugoslavia agreed to even more sweeping economic reforms, including a new devalued currency, another wage freeze, sharp cuts in government spending, and the elimination of socially-owned, worker-managed companies. The Belgrade *nomenklatura,* with the assistance of Western advisers, had laid the groundwork for the prime minister's mission by implementing beforehand many of the required reforms, including a major liberalization of foreign investment legislation.

"Shock therapy" began in January 1990. Although inflation had eaten away at earnings, the IMF ordered that wages be frozen at their mid-November 1989 level. Prices continued to rise unabated, and real wages collapsed by 41 percent in the first six months of 1990.

The IMF also effectively controlled the Yugoslav central bank. Its tight money policy further crippled federal Yugoslavia's ability to finance its economic and social programs. State revenues that should have gone as transfer payments to the republics and provinces went instead to service Belgrade's debt with the Paris and London clubs. The republics were largely left to their own devices.

In one fell swoop, the reformers engineered the final collapse of Yugoslavia's federal fiscal structure and mortally wounded its federal political institutions. By cutting the financial arteries between Belgrade and the republics, the reforms fueled secessionist tendencies that fed on economic factors as well as ethnic divisions and virtually ensured the de facto secession of the republics. The IMF-induced budgetary crisis created an economic *fait accompli* that paved the way for Croatia's and Slovenia's formal secession in June 1991.

The dismantling of the industrial economy was breath-

CRUSHED BY THE INVISIBLE HAND

The reforms demanded by Belgrade's creditors also struck at the heart of Yugoslavia's system of socially-owned and worker- managed enterprises. As one observer noted, "The objective was to subject the Yugoslav economy to massive privatization and the dismantling of the public sector. The Communist Party taking in its magnitude and brutality

bureaucracy, most notably its military and intelligence sector, was canvassed specifically and offered political and economic backing on the condition that wholesale scuttling of social protections for Yugoslavia's workforce was imposed."

It was an offer that a desperate Yugoslavia could not refuse. Advised by Western lawyers and consultants, Markovic's government passed financial legislation that forced "insolvent" businesses into bankruptcy or liquidation. Under the new law, if a business were unable to pay its bills for 30 days running, or for 30 days within a 45-day period, the government would launch bankruptcy procedures within the next 15 days.

The assault on the socialist economy also included a new banking law designed to trigger the liquidation of the socially owned "Associated Banks." Within two years, more than half the country's banks had vanished, to be replaced by newly-formed "independent profit-oriented institutions."

These changes in the legal framework, combined with the IMF's tight money policy toward industry and the opening of the economy to foreign competition, accelerated industrial decline. >From 1989 through September 1990, more than a thousand companies went into bankruptcy. By 1990, the annual rate of growth of GDP had collapsed to -7.5 percent. In 1991, GDP declined by a further 15 percent, while industrial output shrank by 21 percent.

The IMF package unquestionably precipitated the collapse of much of Yugoslavia's well-developed heavy industry. Other socially-owned enterprises survived only by not paying workers. More than half a million workers still on company payrolls did not get regular paychecks in late 1990. They were the lucky ones. Some 600,000 Yugoslavs had already lost their jobs by September 1990, and that was only the beginning. According to the World Bank, another 2,435 industrial enterprises, including some of the country's largest, were slated for liquidation. Their 1.3 million workers -- half the remaining industrial workforce -- were "redundant."

As 1991 dawned, real wages were in free fall, social programs had collapsed, and unemployment ran rampant. The dismantling of the industrial economy was breath-taking in its magnitude and brutality. Its social and political impact, while not as easily quantified, was tremendous. "The pips are squeaking," as London's patrician Financial Times put it.

Less archly, Yugoslav President Borisav Jovic warned that the reforms were "having a markedly unfavourable impact on the overall situation in society . . . Citizens have lost faith in the state and its institutions . . . The further deepening of the economic crisis and the growth of social tensions has had a vital impact on the deterioration of the political-security situation."

THE POLITICAL ECONOMY OF DISINTEGRATION

With the republics at each

Some Yugoslavs joined together in a doomed battle to prevent the destruction of their economy and polity. As one observer found, "worker resistance crossed others' throats, both economy and the nation itself embarked on a vicious downward spiral

ethnic lines, as Serbs, Croats, Bosnians and Slovenians mobilized . . . shoulder to shoulder with their fellow workers." But the economic struggle also heightened already tense relations among therepublics -- and between the republics and Belgrade.

Serbia rejected the austerity plan outright, and some 650,000 Serbian workers struck against the federal government to force wage hikes. The other republics followed different and sometimes self-contradictory paths.

In relatively wealthy Slovenia, for instance, secessionist leaders such as Social Democratic party chair Joze Pucnik supported the reforms: "From an economic standpoint, I can only agree with socially harmful measures in our society, such as rising unemployment or cutting workers' rights, because they are necessary to advance the economic reform process."

But at the same time, Slovenia joined other republics in challenging the federal government's efforts to restrict their economic autonomy. Both Croatian leader Franjo Tudjman and Serbia's Slobodan Milosevic joined Slovene leaders in railing against Yugoslavia's attempts to impose harsh reforms.

In the multi-party elections in 1990, economic policy was at the center of the political debate as separatist coalitions ousted the Communists in Croatia, Bosnia and Slovenia. Just as economic collapse spurred the drift toward separation, the separation in turn exacerbated the economic crisis. Cooperation among the republics virtually ceased. And with the republics at each others' throats, both economy and the nation itself embarked on a vicious downward spiral.

The process sped downward as the republican leaderships deliberately fostered social and economic divisions to strengthen their own hands: "The republican oligarchies, who all had visions of a 'national renaissance' of their own, instead of choosing between a genuine Yugoslav market and hyperinflation, opted for war which would disguise the real causes of the economic catastrophe."

The simultaneous appearance of militias loyal to secessionist leaders only hastened the descent into chaos. These militias, with their escalating atrocities, not only split the population along ethnic lines, they also fragmented the workers' movement.

WESTERN HELP

Slovenia, Croatia, and finally, Bosnia fought bloody civil wars

The austerity measures had laid the basis for the recolonization of the Balkans. Whether that required the breakup of Yugoslavia was subject to debate among the Western powers, with Germany leading the push for secession and the U.S., fearful of opening a nationalist pandora's box, originally arguing for Yugoslavia's preservation.

Following Franjo Tudjman's and the rightist Democratic Union's decisive victory in Croatia in May 1990, German Foreign Minister Hans Dietrich Genscher, in almost daily contacts with his counterpart in Zagreb, gave his go-ahead for Croatian secession. Germany did not passively support secession; it "forced the pace of international diplomacy" and pressured its Western allies to recognize Slovenia and Croatia. Germany sought a free hand among its allies "to pursue economic dominance in the whole of Mitteleuropa."

Washington, on the other hand, favored "a loose unity while encouraging democratic development . . . [Secretary of State] Baker told Tudjman and [Slovenia's President] Milan Kucan that the United States would not encourage or support unilateral secession . . . but if they had to leave, he urged them to leave by a negotiated agreement."

Instead, Slovenia, Croatia, and finally, Bosnia fought bloody civil wars against "rump" Yugoslavia (Serbia and Montenegro) or Serbian nationalists or both. But now, the U.S. has belatedly taken an active diplomatic role in Bosnia, strengthened its relations with Croatia, and Macedonia, and positioned itself to play a leading role in the region's economic and political future.

THE POST-WAR REGIME

Yugoslavia's foreign debt has been carefully divided among the successor republics, which are now strangled in making separate arrangements

Western creditors have now turned their attention to Yugoslavia's successor states. As with the demise of Yugoslavia, the economic aspects of post-war reconstruction remain largely unheralded, but the prospects for rebuilding the newly independent republics appear bleak. Yugoslavia's foreign debt has been carefully divided and allocated to the successor republics, which are now strangled in separate debt rescheduling and structural adjustment agreements.

The consensus among donors and international agencies is that past macroeconomic reforms adopted under IMF advice had not quite met their goal and further shock therapy is required to restore "economic health" in Yugoslavia's successor states. Croatia and Macedonia have followed the IMF's direction. Both have agreed to loan packages -- to pay off their shares of the Yugoslav debt -- which require a consolidation of the process begun with Ante Markovic's bankruptcy program. The too familiar pattern of plant closings, induced bank failures, and impoverishment continues apace.

And global capital applauds. Despite an emerging crisis in social welfare and the decimation of his economy, Macedonian Finance Minister Ljube Trpevski proudly informed the press that "the World Bank and the IMF place Macedonia among the most successful countries in regard to current transition reforms."

The head of the IMF mission to Macedonia, Paul Thomsen, agreed. He avowed that "the results of the stabilization program were impressive" and gave particular credit to "the efficient wages policy" adopted by the Skopje government. Still, his negotiators added, even more budget cutting will be necessary.

But Western intervention is making its most serious inroads on national sovereignty in Bosnia. The neo-colonial administration imposed by the Dayton accords, supported by NATO's firepower, ensures that Bosnia's future will be determined in Washington, Bonn, and Brussels -- not Sarajevo.

"Substantial" petroleum fields also lie in the Serb-held part of Croatia

RECONSTRUCTION COLONIAL STYLE

If Bosnia is ever to emerge from the ravages of war and neo- colonialism, massive reconstruction will be essential. But judging by recent Balkan history, Western assistance is more likely to drag Bosnia into the Third World rather than lift it to parity with its European neighbors.

The Bosnian government estimates that reconstruction costs will reach $47 billion. Western donors have pledged $3 billion in reconstruction loans, yet only $518 million dollars have so far been granted. Part of this money is tagged to finance some of the local civilian costs of IFOR's military deployment and part to repay international creditors.

Fresh loans will pay back old debt. The Central Bank of the Netherlands has generously provided "bridge financing" of $37 million to allow Bosnia to pay its arrears with the IMF, without which the IMF will not lend it fresh money. But in a cruel and absurd paradox, the sought-after loans from the IMF's newly created "Emergency Window" for "post-conflict countries" will not be used for post-war reconstruction. Instead, they will repay the Dutch Central Bank, which had coughed up the money to settle IMF arrears in the first place. Debt piles up, and little new money goes for rebuilding Bosnia's war-torn economy.

While rebuilding is sacrificed on the altar of debt repayment, Western governments and corporations show greater interest in gaining access to strategic natural resources. With the discovery of energy reserves in the region, the partition of Bosnia between the Federation of Bosnia-Herzegovina and the Bosnian-Serb Republika Srpska under the Dayton accords has taken on new strategic importance. Documents in the hands of Croatia and the Bosnian Serbs indicate that coal and oil deposits have been identified on the eastern slope of the Dinarides Thrust, retaken from rebel Krajina Serbs by the US-backed Croatian army in the final offensives before the Dayton accords. Bosnian officials report that Chicago-based Amoco was among several foreign firms that subsequently initiated exploratory surveys in Bosnia.

"Substantial" petroleum fields also lie in the Serb-held part of Croatia just across the Sava river from Tuzla, the headquarters for the U.S. military zone. Exploration operations went on during the war, but the World Bank and the multinationals which conducted the operations kept local governments in the dark, presumably to prevent them from acting to grab potentially valuable areas.

With their attention devoted to debt repayment and potential energy bonanzas, the Western powers have shown little interest in rectifying the crimes committed under the rubric of ethnic cleansing. The 70,000 NATO troops on hand to "enforce the peace" will accordingly devote their efforts to administering the partition of Bosnia in accordance with Western economic interests rather than restoring the status quo ante.

While local leaders and Western interests share the spoils of the former

Yugoslav economy, they have entrenched socio-ethnic divisions in the very structure of partition. This permanent fragmentation of Yugoslavia along ethnic lines serves to thwart a united resistance of Yugoslavs of all ethnic origins against the recolonization of their homeland.

But what's new? As one observer caustically noted, all of the leaders of Yugoslavia's successor states have worked closely with the West: "All the current leaders of the former Yugoslav republics were Communist Party functionaires and each in turn vied to meet the demands of the World Bank and the International Monetary Fund, the better to qualify for investment loans and substantial perks for the leadership."

A world of shuttered factories, jobless workers, and gutted social programs

Western-backed neo-liberal macroeconomic restructuring helped destroy Yugoslavia. Yet, since the onset of war in 1991, the global media has carefully overlooked or denied its central role. Instead, it has joined the chorus singing praises of the free market as the basis for rebuilding a war-shattered economy. The social and political impact of economic restructuring in Yugoslavia has been carefully erased from our collective understanding. Opinion-makers instead dogmatically present cultural, ethnic, and religious divisions as the sole cause of the crisis. In reality, they are the consequence of a much deeper process of economic and political fracturing.

This false consciousness not only masks the truth, it also prevents us from acknowledging precise historical occurrences.

Ultimately it distorts the true sources of social conflict. When applied to the former Yugoslavia, it obscures the historical foundations of South Slavic unity, solidarity and identity. But this false consciousness lives worldwide, where the only possible world is one of shuttered factories, jobless workers, and gutted social programs, and "bitter economic medicine" is the only prescription.

At stake in the Balkans are the lives of millions of people. Macroeconomic reform there has destroyed livelihoods and made a joke of the right to work. It has put basic needs such as food and shelter beyond the reach of many. It has degraded culture and national identity. In the name of global capital, borders have been redrawn, legal codes rewritten, industries destroyed, financial and banking systems dismantled, social programs eliminated. No alternative to global capital, be it market socialism or "national" capitalism, will be allowed to exist.

But what happened to Yugoslavia -- and now continues in its weak successor states -- should resonate beyond the Balkans. Yugoslavia is a mirror for similar economic restructuring programs in not only the developing world but also in the US, Canada and Western Europe.

The Yugoslav reforms are the cruel reflection of a destructive economic model pushed to the extreme.

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Albion Monitor *April 2, 1999* (http://www.monitor.net/monitor)