

# CHASING ITS OWN TAIL FOR SEVEN DECADES: The Serbian Quest for Self-Reformation\*

*Original Scientific Article/  
Originalni naučni članak*  
Ognjen RADONJIĆ  
*Faculty of Philosophy  
University of Belgrade*  
Miodrag ZEC  
*Faculty of Philosophy  
University of Belgrade*

---

*Question of balancing between the principle of fairness and the principle of efficiency is a key issue of any reform and this is where the state emerges as a key civilization instrument for ensuring nation's progress. Unfortunately, Serbian society has made a strategic failure. Instead of building a state as a foundation for the creation of new national wealth, the state in our scenario has become a key instrument of class, regional, and inter-generational redistribution. There are very few countries like Serbia, where political elite for decades advocates designing of long-term development strategies and creates a large number of institutions for their implementation, and, at the same time, in the real-life, persistently conducts diametrically opposite policies of favouring short-term interests over long-term goals.*

---

*Key words:* reform, Serbia, redistribution, consumption, savings, investments, economic growth

## ***Introduction***

UNFORTUNATELY, EVEN AFTER SEVEN DECADES of the intensive quest for self-reformation, Serbia's key political, social and economic issues are still opened. That is why Serbia is even nowadays an unfinished state

---

\* Research for the paper was funded by the Ministry of Education, Science and Technological Development of the Republic of Serbia (Project No. 179035)/Istraživanje za potrebe ovog rada finansiralo je Ministarstvo za obrazovanje, nauku i tehnološki razvoj Republike Srbije (projekat br. 179035).  
oradonji@f.bg.ac.rs; mzec@f.bg.ac.rs

with a number of unresolved issues of territorial organization, political model and economic mechanism of financing sustainable development and building of a new framework for the society's value system.

The question is why is this so? Why, even after seven decades of permanent reforms aiming at building sustainable economic and political system, no reform has fulfilled its purpose, even though word *reform* has been the most frequently used term in the Serbian political vocabulary during the entire post-WWII period.

In order to find an answer to this question we have to go back to the aftermath of the WWII. What we discover is that economic forces that led to the implosion of communist economic system are active even today. We therefore conclude that after the collapse of communism in 1990, the Serbian society only verbally opted for reforms because the matrix of the system functioning that characterized whole communist period remained the same – the system is designed to eat itself, since it is not based on creation of new wealth, but the government redistribution from one to the other social group(s).

### ***The logic of redistribution during the communist era***

The main characteristic of the whole period of socialistic economy (1945–2000) was a disproportion between high and continually increasing consumption and insufficient and continually decreasing production or, in other words, imbalance between the desired rate of economic growth and the pace of accumulation of domestic savings.

In the aftermath of WWII, by coping Soviet experience, Tito's communists established a centralist-bureaucratic system. Euphoria of the war winners enabled communist leaders to start the process of the redistribution of wealth through mass nationalization and confiscation, drastic suppression of consumption (forced savings), free of charge labour services (so-called labour actions), over-utilization of resources and repression directed towards agriculture through price scissors, compulsory "purchase" of agricultural surpluses and the elimination of the kulaks (i.e. landowners). Nonetheless, just two years after the implementation of this model, economic performance started to deteriorate due to excessive bureaucratization of the system, lack of employees' motivation and failed investments. It is noteworthy to mention that the goal of this model was not the crea-

tion of an efficient economic system but the creation of new social and economic order.

Shortly after the break up with the Soviet Union in 1948, Yugoslavia undertakes experiment *in vivo* by introduction of a system of self-management based on, up to that moment, non-existent form of property – social property. Since it introduced alternative communist model (so-called “soft communism”) and founded the political block of Non-Allied countries, at the world scene Yugoslavia became known as “something in between” and “East in the West and West in the East”. Just to mention, this idea of a “third way” is still alive because even today we can often hear the voices calling for political, military and economic neutrality. Unfortunately, as real world experience has shown, the idea of a “third way” only brought us closer to the economic parameters of the “third world.”

However, model of self-management contained a systematic defect – between salary and enterprise accumulation, workers will always opting for salaries. Expectedly, in time, this experiment produced insufficient level of investments and rising unemployment and discrepancy between consumption appetites and the incomes generated. But, due to favourable geo-strategic position of Yugoslavia, this deficits were covered by the abundant financial aid form the West during 1950s.

Unluckily, because of *détente* between the United States and the Soviet Union, in early 1960s this aid evaporated forcing ruling nomenclature to find new ways of financing an essentially invalid economic system. The solution found was pragmatic: a rather liberal procedure of passport issuance that led to a significant “temporal” exodus of labour force abroad. In that way, “two birds were killed with one stone”: surplus of labour force left the country, thereby lowering political discontent and, until today, the most important new source of capital inflow aimed at financing high local consumption has been established through the cash remittances of diaspora.

Still, due to persistent refraining from undertaking deep and concrete reforms this was only temporary solution. Situation deteriorated further and in early 1970s communist elite decided to cover augmenting deficits through increase in external debt.

In 1980 external debt limit was achieved. Death of Josip Broz Tito, father of the Yugoslav nation, and key arbiter that guaranteed political balance, signaled forthcoming eruption of political imbalances, which was a sufficient reason for forei-

gn creditors to stop with permanent doping of the system fundamentally projected to consume above its productive powers. Therefore, new infusion for essentially dying system had to be discovered. It was “soft budget constraint” – monetization of public deficits and redistribution of income through high and persistent inflation. This mechanism led to socialization of costs via punishment of creditors and rewarding of debtors. Additionally, in order to cover missing accumulation, Tito’s communist successors made a desperate move and via domestic banks offered interest rates to diaspora that were above comparable European savings interest rates. This decision gave results, considerable amount of diaspora’s savings was attracted and imminent crash was delayed by very short period of time.

However, absence of reforms practically supported collapse of the Socialist Federative Republic of Yugoslavia and in 1990, the system, as integrated social, political and economic entirety, finally fell apart. Regrettably, this collapse was followed by merciless civil war characterized by the massive destruction of human capital and productive powers with severe long-term negative effects. Consequently in 2000, when Milosevic’s war regime fell from power after ten years of rule, the Serbian GDP equalled 47% of GDP generated in 1989 and industrial production amounted to 43.3% of its 1990 level (Figure 1). During this wasted decade, Serbian political successors of failed communist system continued massive redistribution of wealth through extreme hyperinflation, spending citizens’

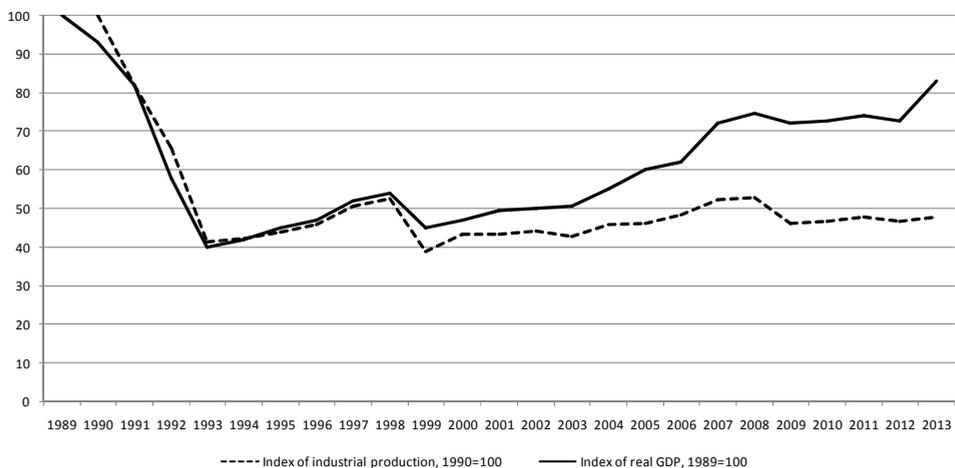


Figure 1. Index of real GDP (1989=100) and industrial production (1990=100)

Sources: Statistical Office of the Republic of Serbia, Database and authors’ calculations.

foreign currency savings, robbing citizens through the system of the para-state banks (*Dafiment bank* and *Jugoskandik*), and the sale of the family silver – *Telekom* (public telecommunications corporation).

### ***Redistribution methods and macroeconomic imbalances in the post-2000 period***

After violent overthrow of Milosevic's regime in 2000, Serbia again only formally opted for reformation and approaching the doorsteps of the European Union. This is why we call the whole post-2000 period, the period of "anticommunist communism". In essence, the logic of system remained the same – *redistribution* through: overvalued domestic currency (dinar); the socialization of costs of failed banks (*Univerzal banka*, *Privredna banka Beograd*, *Agrobanka*); inflation; covering deficits of public corporations; massive employment of party members in administration; absence of progressive taxation and tax system in general. For example, newly established "solidarity tax", takes away from doctors, surgeons and professors in order to avoid rationalization of state apparatus and provide subsidized loans to tycoons or cancellations of debts for businessmen close to leading political parties.<sup>1</sup> Naturally, as a result, succeeded disproportions from the communist period dramatically deepened in the post-2000 period.

We can start from disproportion between production and consumption, that is, between domestic savings and investments. Consumption by households and state (final consumption) has throughout the observed period stood at approximately 100% of Gross Domestic Product (GDP) and investment consumption around 20% of GDP thereby equalizing total Serbian consumption to around 120% of GDP (Figure 2). However, the amount of consumption that could not be covered from domestic production had to be financed somehow.

The other side of the coin of excessive consumption is persistent and by global standards high current account deficit financed by the privatization incomes, donations and increase in external debt. For example, in 2013 Serbian current

---

1 Thus, the First Vice President of the Government of Serbia, Mr Aleksandar Vučić announced on 1 March 2014 that the Government would find a strategic partner for *Simpo*, corporation in the process of restructuring, and that the important part of this new arrangement would be cancellation of the Serbian tax claims against this company equalled to 5.7 billion dinars (close to 50 million euro). (TANJUG, 01.03.2014).

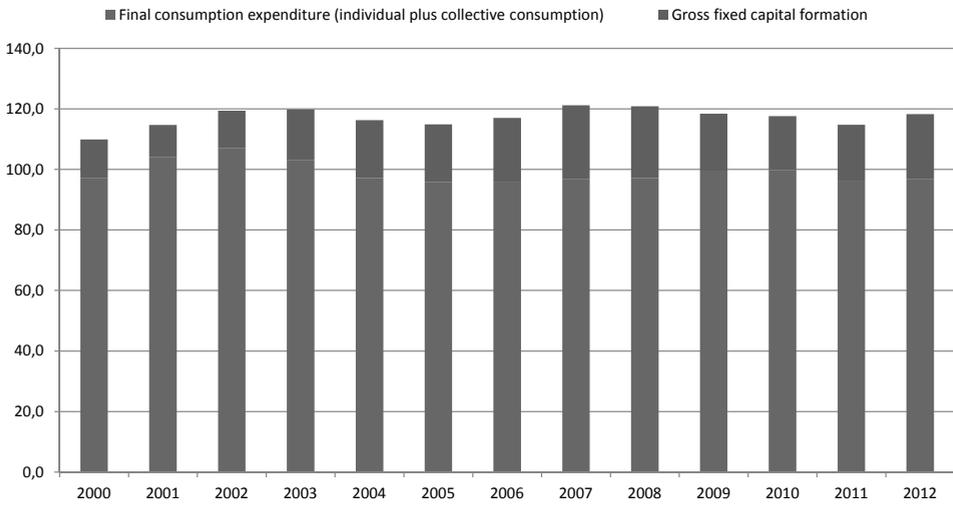


Figure 2. Serbia: GDP by expenditure approach (in % of GDP)

Source: Statistical Office of the Republic of Serbia, Database.

account deficit amounted to 7.5% of GDP and external debt (public plus private) equaled 80.3% of GDP (Figure 3).

Not less important, there is a visible trend since 2008 of increasing share of the external public debt in total external debt. It went up from 29.2% in 2008 to

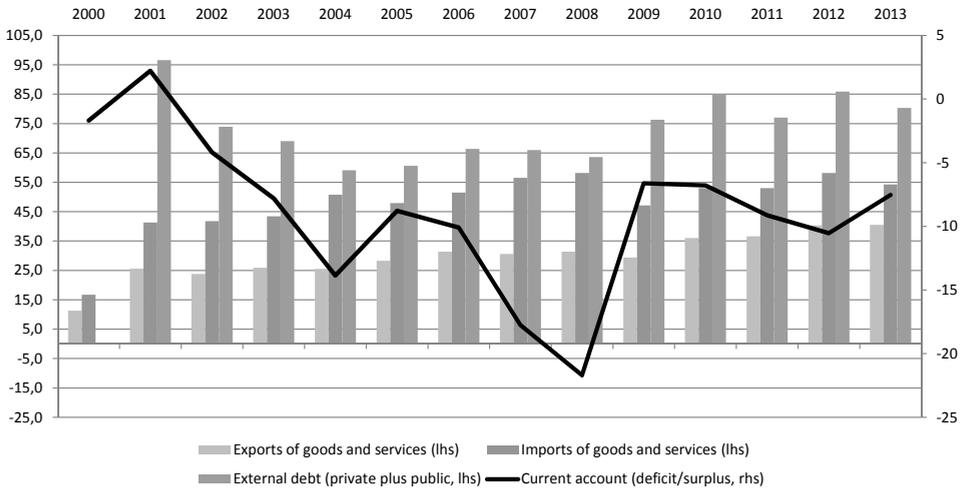
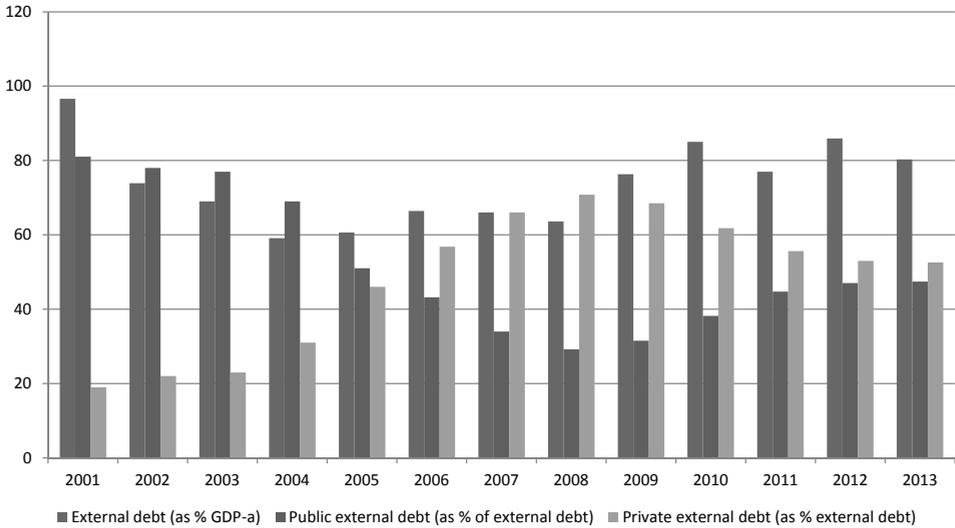


Figure 3. Exports, imports, current account (deficit/surplus) and total external debt (in % of GDP)

Notes: Export of goods and services, imports of goods and services and external debt – left-hand ordinate; current account (deficit/surplus) – right-hand ordinate.



*Figure 4. Total external debt (% of GDP), public external debt and private external debt (% of total external debt)*

*Source: The Analysis of the External Debt of the Republic of Serbia (September 2013).*

47.4% in 2013 (Figure 4).<sup>2</sup> This is due to high and increasing budget deficits, which are consequence of increasing costs of cumbersome and inefficient state apparatus on one hand (burdened with unprofitable public corporations, corruption, failed investment projects, large scale employment of party members in state service etc.) and inefficiency in tax collection due to, among other things, expansion of shadow economy and inability to collect taxes from domestic tycoons who pay symbolic taxes in tax heavens all around the world.<sup>3</sup>

However, since debts must be met, the question that arises is whether our economy is capable of generating sufficient income to provide for a budget and current account surplus and, in such way, decreasing external debt. Unfortunately, our answer is not an affirmative one due to the fact that Serbia's tradable production sectors have been in persistent decline during the entire post-2000 period. Resultantly, share of non-tradable sectors Gross Value Added in total Gross Value

<sup>2</sup> On March 6<sup>th</sup>, 2014, the Government of Serbia additionally increased its external debt by approving the 1 billion US dollars 10-year loan from the United Arab Emirates. (TANJUG, 06.03.2014).

<sup>3</sup> According to estimations of Pavle Petrović, Chairman of the Fiscal Council of the Republic of Serbia, Serbia's budget deficit will reach from 7 to 8% of GDP in 2014, which would be the highest rate in the region. (TANJUG, 04.03.2014).

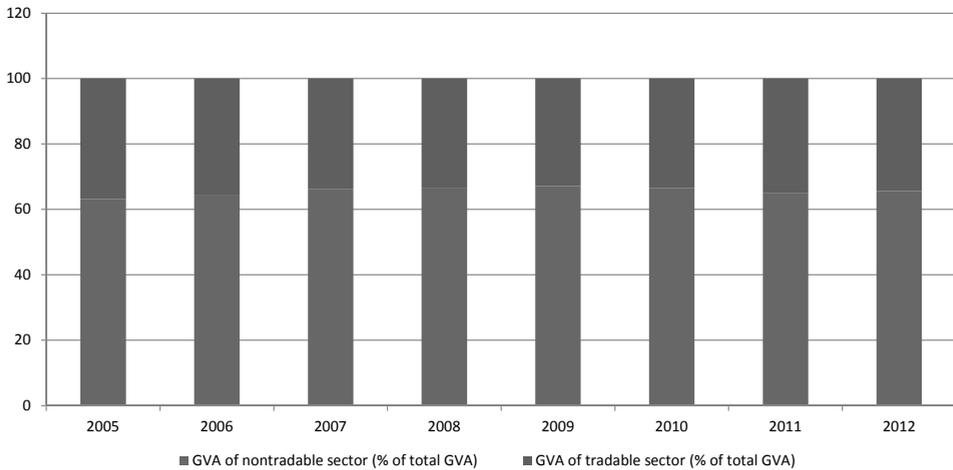
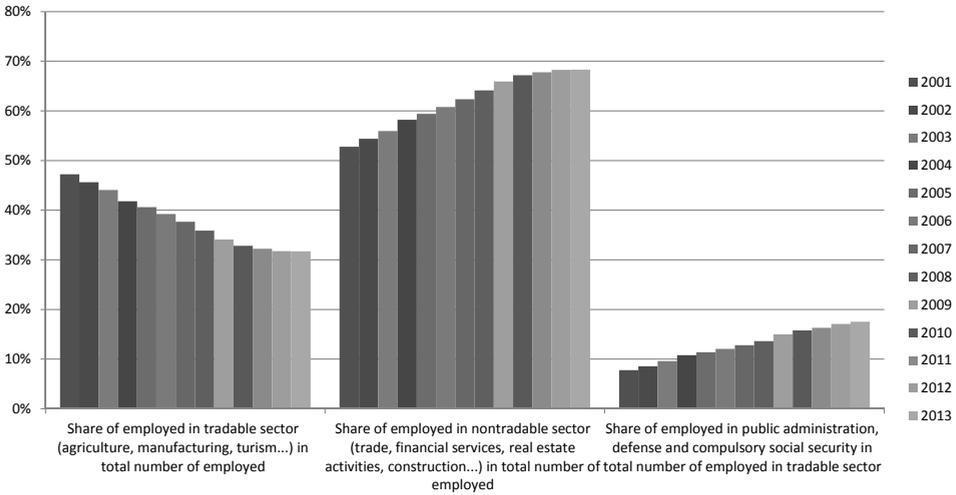


Figure 5. Gross Value Added of tradable and non-tradable sectors (% of total GVA)  
Sources: Statistical Office of the Republic of Serbia, Database and authors' calculations.

Added (GVA = GDP minus taxes plus subsidies) in 2012 was 65% (Figure 5).<sup>4</sup> Or the other way round, the rise of non-tradable and the decline of tradable sectors have resulted in serious disturbances of sectorial distribution of persons employed (Figure 6). Share of the employed in legal entities in tradable sectors in the total number of the employed in legal entities decreased from 47% in 2001 to 32% in 2013 and vice versa. Share of the employed in legal entities in non-tradable sectors in the total number of the employed in legal entities increased from 53% in 2001 to 68% in 2013. Here we can also detect one of the most important causes of ever increasing budget deficits and external debt – from 2001 to 2013 share of the employed in administration, defense and compulsory social security in the total number of the employed in legal entities in tradable sectors more than doubled. It increased from 8% to 18%.

Another urgent problem of the Serbian society and economy seriously jeopardizing any attempt of establishing a sustainable economic growth model in the long run is a deterioration of the most important factor of production – labor

<sup>4</sup> Tradable goods and services are those that have export potential whereas non-tradable goods and services are for internal use (within the borders of the economy). For example, tradable sectors are agriculture, fishing, forestry, mining, quarrying, manufacturing, tourism etc. Non-tradable sectors are construction, wholesale and retail trade, financial and insurance activities, real estate activities, administration, education, human health and social work activities etc.



*Figure 6. Share of employed in tradable and non-tradable sectors in total number of employed in legal entities and share of employed in administration, defence and compulsory social security in total number of employed in tradable sectors in legal entities (%)*

*Sources: Statistical Office of the Republic of Serbia, Database and authors' calculations.*

force. In 2013, ratio of number of persons in retirement and total number of employed equaled 1, which makes contributions of the employed to the pension system insufficient (Figure 7). This deficit is covered by continual interventions from the state budget, eventually leading to an increase in external debt.

Moreover, having in mind that ratio of economically inactive (pensioners plus dependants) and total number of the employed equaled 1.8 in 2013 and that we are facing negative natural increase for years (for example, 35,000 in 2013, Figure 8) we may with quite a certainty conclude that our biological potential deteriorates due to the fact that a number of dependants does not increase thanks to a high birth rate (increase in population aged up to 18), but thanks to an increase in share of dependants in the working age population.

Sadly enough, these disproportions are unavoidably reflected in inhabitants' standard of living. Consequently, among 10 former communist countries that we selected (Albania, Bulgaria, Croatia, Hungary, Poland, Romania, the Czech Republic, Slovak Republic, Slovenia and Serbia), Albania is the only economy with a lower GDP per capita than Serbia (Figure 9).<sup>5</sup>

<sup>5</sup> Moreover, as we may see in Figure 1, the Serbian GDP in 2013 equalled 83% of its 1989 level and industrial production 47.7% of its 1990 value.

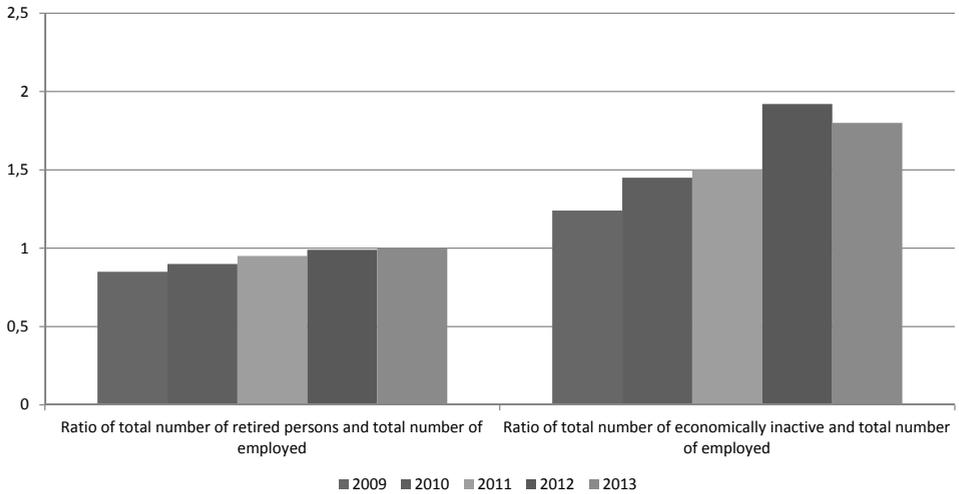


Figure 7. Ratio of total number of retired persons and total number of employed and ratio of economically inactive and total number of employed

Sources: Pension and Disability Insurance Fund of the Republic of Serbia, Statistical Office of the Republic of Serbia – Labor force survey for 2010, 2011, 2012 and 2013 and authors’ calculations.

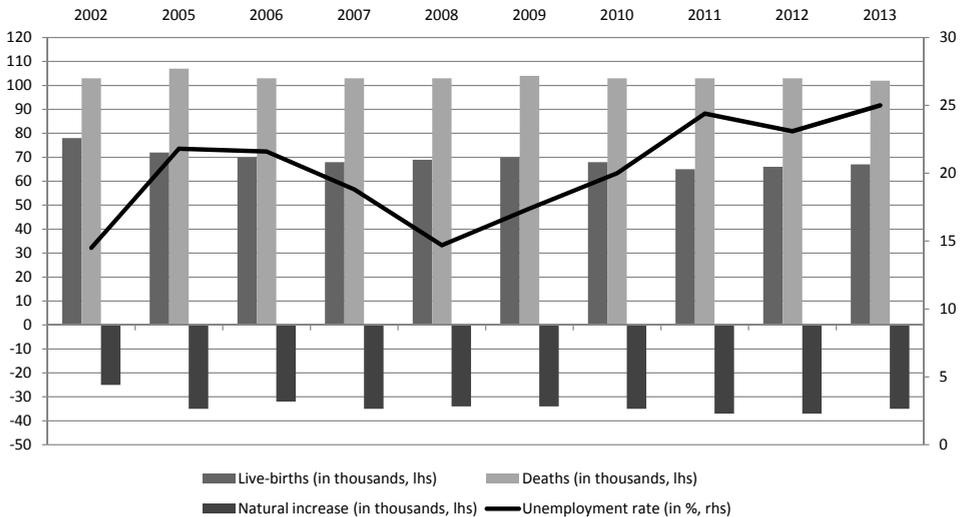


Figure 8. Live-births, deaths, natural increase (in thousands persons) and unemployment rate (in % of total labor force)

Notes: Live-births, deaths and natural increase – left-hand ordinate; unemployment rate - right-hand ordinate.

Sources: Ministry of Finance of the Republic of Serbia and Statistical Office of the Republic of Serbia, Database.

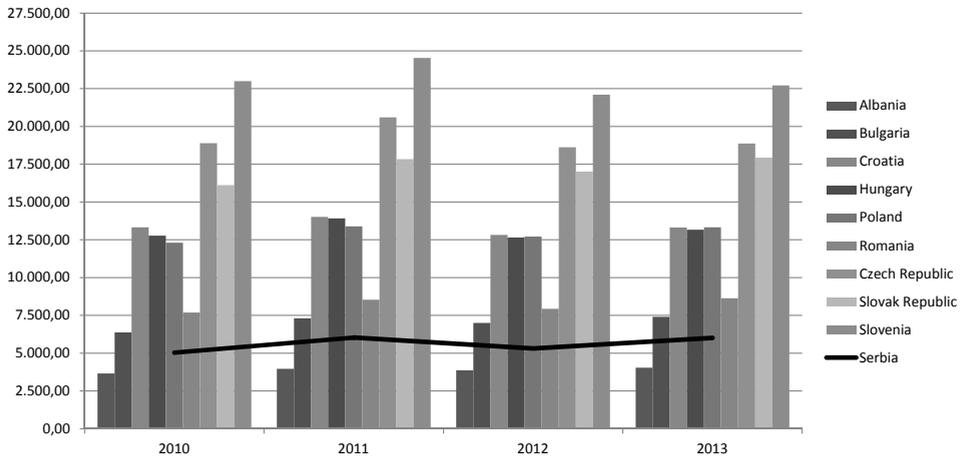


Figure 9. GDP per capita in selected former communist economies (thousands of USD)  
 Source: International Monetary Fund, World Economic Outlook Database, October 2013.

## Conclusion

Serbian society must seriously address the problem of continuous accumulation of the above analyzed discrepancies and imbalances and take certain radical steps in order to eliminate them. There is no doubt that preconditions for a radical shift in the process of establishment the model of sustainable development are the change of the present day ruling economic model and the measures of economic policy. Small economies, such as Serbian, could improve its position in the world economy only by increasing production, reducing current consumption and directing thus generated surplus towards capital investments.

Such an approach opens the way to a positive trade balance and creation of the basis for a gradual reduction of the external debt. The creation of a new structure of GDP (growth in production and exports) and new principles in its distribution (favouring savings and investment as opposed to current consumption) would enable changing of a proportion between economically active population and dependants, a new social configuration and a shift towards more equitable regional development. In such way created new political and economic environment, it is likely to expect changes in demographic trends or radical immigration of economically active population rather than emigration.

The continuation of previous trends of a permanent decline in all qualitative parameters of development, whereas a reduction in population is accompanied by

high unemployment of young and educated people thus forced to join our already vast emigration army is undoubtedly a sign of deep social disturbances and alarm reminding us of a need for undertaking urgent measures in order to propel major political and economic changes. A new form of economic development requires a new value concept of society as a whole, which is a prerequisite for a rational economic model and cheap and functional state.

### ***Data sources:***

The Analysis of the External Debt of the Republic of Serbia, September 2013, National Bank of Serbia, [http://www.nbs.rs/internet/latinica/90/dug/dug\\_III\\_2013.pdf](http://www.nbs.rs/internet/latinica/90/dug/dug_III_2013.pdf)

International Monetary Fund, World Economic Outlook Database, October 2013, <http://www.imf.org/external/pubs/ft/weo/2013/01/weodata/index.aspx>

Ministry of Finance of the Republic of Serbia, <http://www.mfin.sr.gov.yu/>

Pension and Disability Insurance Fund of the Republic of Serbia, <http://www.pio.rs>

TANJUG (01.03.2014), Vučić: Država neće pustiti Simpo i radnike niz vodu (Vučić: Serbia will not give up Simpo and its laborers), <http://www.tanjug.rs/Biznis1.aspx?page=5>

TANJUG (04.03.2014), Budget deficit up to 8 percent of GDP in 2014, <http://www.tanjug.rs/news/119814/budget-deficit-up-to-eight-percent-of-gdp-in-2014.htm>

TANJUG (06.03.2014), Serbian government approves UAE loan, <http://www.tanjug.rs/news/120040/serbian-government-approves-uae-loan.htm>

Statistical Office of the Republic of Serbia, Database, <http://webrzs.stat.gov.rs/WebSite/public/ReportView.aspx>

Statistical Office of the Republic of Serbia, Labor force survey for 2010, 2011, 2012 and 2013, <http://webrzs.stat.gov.rs/>

Statistical Bulletin, December 2013, National Bank of Serbia, [http://www.nbs.rs/static/nbs\\_site/gen/latinica/90/statisticki/sb\\_12\\_13.pdf](http://www.nbs.rs/static/nbs_site/gen/latinica/90/statisticki/sb_12_13.pdf)

---

### ***Rezime:***

## ***JUREĆI SOPSTVENI REP SEDAM DEKADA: Srbija u potrazi za reformama***

Pitanje ravnoteže između principa pravednosti i efikasnosti jeste ključno pitanje bilo kog pokušaja reformi gde se javlja država kao ključni civilizacijski instrument čiji je cilj osiguranje nacionalnog napretka. Nažalost, srpsko društvo je u tom smislu načinilo strateški promašaj. Umesto izgradnje države čija je uloga da bude temelj stvaranja novog bogatstva, država je u domaćoj

režiji postala ključni instrument za klasnu, regionalnu i međugeneracijsku preraspodelu. Veoma je malo zemalja kao što je Srbija, u kojoj političke elite već decenijama zagovaraju koncipiranje dugoročnih strategija razvoja i formiraju mnoštvo institucija za njihovu implementaciju, a u realnom životu vode dijametralno suprotnu politiku favorizovanjem kratkoročnih interesa nad dugoročnim ciljevima.

---

*Ključne reči:* reforma, Srbija, preraspodela, potrošnja, štednja, investicije, privredni rast

*Prijavljen:* 30. 6. 2014.

*Recenziran:* 15. 8. 2014.

*Prihvaćen:* 20. 8. 2014.