IMF “shock therapy” and the recolonisation of the Balkans

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During the Balkan Wars of 1912-13 Leon Trotsky wrote: "In politics as in private life there is nothing cheaper than moralizing--nothing cheaper and more useless. Many people, however, find it attractive because it saves them from having to look into the objective mechanism of events."

In all the acres of print and millions of hours of television programming devoted to the Balkan crisis, beginning with the dismemberment of the Yugoslav federation in 1991, there has been virtually no coverage, much less analysis, of its underlying causes.

The reasons for this silence are not hard to find, for such an analysis reveals that behind the propaganda smokescreen of "humanitarian" concerns for the fate of refugees and the victims of "ethnic cleansing," powerful economic processes are driving the escalating military intervention of the imperialist powers.

In his analysis of the November 1995 Dayton accord on Bosnia-Herzegovina, the Canadian author Michel Chussodovsky noted: "[T]he break-up of the Yugoslav federation bears a direct relationship to the program of macro-economic restructuring imposed on the Belgrade government by its external creditors. This program, adopted in several stages since 1980, contributed to triggering the collapse of the national economy, leading to the disintegration of the industrial sector and the piecemeal dismantling of the welfare state. Secessionist tendencies, feeding on social and ethnic divisions, gained impetus precisely during a period of brutal impoverishment of the Yugoslav population."[1]

In her 1995 study of the Balkan crisis, carried out for the Brookings Institute, Susan Woodward took issue with the Washington scenario, according to which "rogue states" had emerged in the post-cold war world "headed by 'new Hitlers' such as Saddam Hussein in Iraq and Slobodan Milosevic, who defied all norms of civilized behavior and had to be punished to protect those norms and to protect innocent people."[2]

Neither was the break-up of Yugoslavia, she insisted, the result of the springing to life of ethnic tensions and conflicts that had been held in a kind of "deep freeze" during the previous 40 years.

Rather, the real origins of the breakdown of civil and political order lay in the economic decline caused largely by the debt repayment program imposed by the International Monetary Fund and other international financial institutions.

"More than a decade of austerity and declining living standards corroded the social fabric and the rights and securities that individuals and families had come to rely on. Normal political conflicts over economic resources between central and regional governments and over the economic and political reforms of the debt-repayment package became constitutional conflicts and then a crisis of the state itself among politicians who were unwilling to compromise."[3]

The causal connection between the debt repayment program imposed by the IMF and the break-up of Yugoslavia is also the subject of a recent posting on the Polyconomics, Inc. web site (www.polyconomics.com) by the site's director Jude Wanniski, a former associate editor of the *Wall Street Journal*. Wanniski has forwarded a memo to US Secretary of State Madeleine Albright consisting of a report prepared by the then Polyconomics staff member Criton Zoakos in May 1993.

"In 1987," Zoakos wrote, "the old Yugoslavia, with all its tragic failings, was still a functioning state. The International Monetary Fund then took over economic policy, implementing a number of all too familiar shock therapies: devaluation, a wage freeze, and price decontrol--designed on the Harvard/MIT economic textbook principles meant to drive the wage rate down to a level where it would be internationally competitive. As the economy contracted from this shock, revenues to the central government declined, triggering pressure from the IMF to raise taxes to balance the budget. ...

"These centrifugal forces began to tear apart at the federation, with the richer provinces of Croatia and Slovenia objecting to being drained of resources by the poorer provinces. Just as the USSR splintered as the IMF browbeat the Gorbachev government into a ruble devaluation, Yugoslavia broke into pieces as ethnic and religious rivalries were reasserted in an attempt to control the rapidly shrinking pool of resources. ...

"When the IMF shock therapy hit Yugoslavia, the initial form of social disorder was not ethnic friction but massive and repeated strikes and labor actions. As late as 1988, an enterprising US journalist employed in Belgrade had difficulty in finding ethnic passions and reported: ' "I would be a Serb, a Bosnian, anything--an Uzbekistani--I'd make my eyes slanted, if I'd have money," says a Belgrade taxi driver named Zoran, stretching the skin around his eyes to make the point.' Ordinary people turned into ethnic monsters only after all their options for a normal economic life were destroyed. *'Ethnic cleansing' arrived only after 'shock therapy' had done its work.*"

Therefore, as Woodward rightly notes in her study "to explain the Yugoslav crisis as a result of ethnic hatred is to turn the story upside down and begin at its end."[4]

The origins of IMF "Structural Adjustment"

In order to begin at the beginning and reveal the economic interests of the major capitalist powers driving the Balkans crisis it is necessary to go back at least as far as the break-up of the post-war capitalist boom.

With the collapse of the Bretton Woods monetary system in 1971-73, when US President Nixon removed the gold backing from the US dollar and initiated floating exchange rates between the major currencies, world capitalism was hit by a series of economic shocks. Oil prices quadrupled in 1973-74, leading to major imbalances within the global financial system as oil-importing countries faced massive balance of payments problems. The short-lived commodity-price boom of 1973-74 was rapidly followed by the global recession of 1974-75, the deepest to that point since the Depression of the 1930s.

For the ruling classes of the imperialist powers these mounting economic problems were compounded by a rising movement of the working class--the 1974 miners' strike in Britain, the revolution in Portugal, the growing wages militancy in the United States, to name just some examples--coupled with a series of anti-imperialist struggles in the semi-colonial countries, culminating in the defeat of the United States in Vietnam in 1975.

Accordingly, the bourgeoisie pursued a two-pronged strategy. In the major capitalist countries it relied heavily on the social democratic and Communist Party Stalinist apparatuses to bring the upsurge of the working class under control while pursuing a policy of Keynesian social welfare spending measures to soften the blows of the recession.

At the same time it organised the "recycling" of petro-dollars through the international financial system in the form of cheap loans to the countries dependent on oil imports.

But none of these policies resolved the underlying economic problems--they only bought time. The 1974-75 recession ended, but there was no return to the conditions of the post-war boom. The economic crisis assumed a new form of so-called stagflation--the persistence of high unemployment amid double-digit inflation.

This situation was rapidly leading to a crisis in the international financial system. With inflation at record levels, the countries in receipt of "soft loans" were in effect enjoying negative interest rates. On the other hand, the capital stock of the banks was being eroded. A new policy was needed.

It came in the form of the elevation of Paul Volcker to the position of chairman of the US Federal Reserve Board in 1979. After rewriting the Carter administration's budget of that year, Volcker implemented a high interest rate policy to "squeeze inflation" out of the system. In effect, this program, which saw interest rates leap to as high as 20 percent, represented a massive transfer of wealth into the hands of the banks and major financial institutions.

Whereas in the mid-1970s, the bourgeoisie had sought to buy time, by the opening of the 1980s it felt that conditions had sufficiently stabilised for a new initiative. This took the form of an offensive against the social conditions of the working class in all the major capitalist countries, coupled with a program aimed at the impoverishment of the indebted nations.

Countries which had borrowed heavily in order to pay for oil imports were hit on two sides. On the one hand, real interest rates on loans rapidly escalated, while on the other prices for commodities used to earn foreign exchange to repay these debts fell rapidly, as the recession of 1981-82 took hold.

The tightening of this vice-like grip led to the Mexican debt crisis of 1982 followed by the initiation of so-called Structural Adjustment Programs (SAPs) by the IMF. Henceforth, indebted countries would only receive new loans on condition that they undertook a major "restructuring" of their entire economies, based on the slashing of public sector-funded national development projects and social welfare measures. The aim was to open the entire world to the domination of the major industrial corporations and financial institutions.

Summing up the effect of these policies in 1992, a former official of the Inter-American Development Bank, Jerome I. Levinson, noted: "[To] the US Treasury staff ... the debt crisis afforded an unparalleled opportunity to achieve, in the debtor countries, the structural reforms favored by the Reagan administration. The core of these reforms was a commitment on the part of the debtor countries to reduce the role of the public sector as a vehicle for economic and social development and rely more on market forces and private enterprise, domestic and foreign."[5]

These programs had a devastating impact. It has been calculated that between 1984 and 1990 "developing" countries operating under SAPs transferred $178 billion to Western commercial banks, prompting a former official of the World Bank to remark: "Not since the conquistadors plundered Latin America has the world experienced such a flow in the direction we see today."[6]

Economic devastation in Yugoslavia

The effect on Yugoslavia was no less disastrous. The Yugoslav foreign debt, which stood at $2 billion in 1970, rose to $6 billion in 1975. By 1980 it stood at $20 billion, representing over a quarter of national income, with debt servicing taking up some 20 percent of export revenue.

Debt servicing and repayment led to an increased fracturing of the federal republic. Most of the industrial development had taken place in the north of the country, in Croatia and Slovenia, while the south supplied raw materials. As the relative prices of raw materials fell, so the economic inequalities between the republics increased, leading to increased tensions and demands from the northern republics for greater autonomy.

As the federal government was pressured by the IMF and other financial institutions to reduce foreign debt by expanding exports, the resultant diversion of production from home consumption led to a steady reduction of living standards throughout the 1980s.

Between 1979 and 1985 the real personal income of workers in the "social sector" had fallen by 25 percent and by 1989 it is estimated that some 60 percent of Yugoslav workers lived at or below the minimum level guaranteed by the state. The standard of living fell by 40 percent from 1982 to 1989.

This forced contraction of home consumption did bring about a fall in the foreign trade deficit from $7.2 billion to $0.6 billion between 1979 and 1988. But the rescheduling of debt meant that the debt was reduced by only $1 billion and by 1987 had risen once again to more than $20 million.

Describing the operations of this economic treadmill, the British economist Michael Barratt Brown wrote: "There seemed to be and indeed there was no hope. The same remedy was being administered to all the countries in debt in the Third World and in the communist world alike. 'Export more and pay off your debts!' was the chorus of the World Bank and the IMF; and the more the debtor countries exported of the same, often mainly primary, products the more their prices in the world markets fell, while the prices of their imports from the industrialised countries and their rates of interest continued to rise."[7]

With the disintegration of the Stalinist regimes in Eastern Europe in 1989, the IMF restructuring program accelerated. The basic objectives for both Eastern Europe and Yugoslavia had already been formulated in a US National Security Decision Directive in 1982 which called for "expanded efforts to promote a 'quiet revolution' to overthrow Communist governments and parties" and for the integration of Eastern Europe into a market-oriented economy.[8]

The impact on Yugoslavia of the IMF dictates is indicated by the following figures. For the period 1966-79 the increase in industrial production had averaged 7.1 percent per annum. After the first phase of macro-economic reform, it fell to 2.8 percent in the period 1980-87, falling to zero in 1987-88 and then collapsing to -10.6 percent in 1990.

But even more severe measures were to come. In January 1990, an agreement signed with the IMF required expenditure cuts amounting to 5 percent of gross domestic product.

As Chussodovsky's account of this process details, the results were nothing short of catastrophic.

"While earnings had been eroded by inflation, the IMF ordered the freeze of wages at their mid-November 1989 level. Despite the pegging of the dinar to the deutschmark, prices continued to rise unabated. Real wages collapsed by 41 percent in the first six months of 1990. Inflation in 1990 was in excess of 70 percent. In January 1991, another devaluation of the dinar of 30 percent was carried out, leading to another round of price increases. Inflation was running at 140 percent in 1991 soaring to 937 percent and 1134 percent respectively in 1992 and 1993.

"The January 1990 economic package also included the full convertibility of the dinar, the liberalisation of interest rates and further reductions in import quotas. The creditors were in full control of monetary policy: the agreement signed with the IMF prevented the federal government from having access to credit from its own Central Bank (the

National Bank of Yugoslavia). This condition virtually paralysed the budgetary process and crippled the ability of the federal state to finance its economic and social programs. Moreover, the deregulation of commercial credit alongside the banking reforms was conducive to a further collapse of investment by the socially-owned enterprises.

"The freeze of all transfer payments to the republics had created a situation of 'de facto secession'. The implementation of these conditions (contained in the agreement signed with the IMF) was also part of the debt-rescheduling arrangements reached with the Paris and London clubs [the major Western financial institutions]. The IMF-induced budgetary crisis had engineered the collapse of the federal fiscal structure. This situation acted in a sense as a *fait accompli*, prior to the formal declaration of secession by Croatia and Slovenia in June 1991. Political pressures on Belgrade by the European Community combined with the aspirations of Germany to draw the Balkans into its geo-political orbit had also encouraged the process of secession. Yet the economic and social conditions for the break-up of the federation resulting from ten years of 'structural adjustment' had already been firmly implanted."[9]

One of the major demands of the IMF was that the federal government and financial authorities should cease funding "loss-making" enterprises. In 1989 some 248 firms were liquidated and 89,400 workers were laid off. But more was to come. In the first nine months of 1990 a further 889 enterprises with 525,000 workers were subjected to bankruptcy proceedings, with the largest concentration of such firms in Serbia, Bosnia-Herzegovina, Macedonia and Kosovo.

In September 1990, the World Bank estimated there were another 2,435 "loss-making" enterprises, with a combined workforce of 1.3 million workers, out of a remaining total of 7,531. As Chussodovsky notes: "Bearing in mind that 600,000 workers had already been laid off by bankrupt firms prior to September 1990, these figures suggest that some 1.9 million workers (out of a total of 2.7 million) had been classified as 'redundant'. The 'insolvent' firms concentrated in the energy, heavy industry, metal processing, forestry and textiles sectors were among the largest industrial enterprises in the country representing (in September 1990) 49.7 percent of the total (remaining and employed) industrial workforce."[10]

A new colonisation

What these economic statistics underscore is that the current intervention by the NATO powers is nothing other than the continuation by other, that is, military means of the agenda carried out in the preceding period--the destruction of all the previous economic and social development in Yugoslavia and the transformation of the entire region into a kind of semi-colony of the major capitalist powers.

Nowhere is this process more clearly seen than in Bosnia-Herzegovina. Under the Dayton accords of November 1995, these aims were written into the constitution of the new "republic". The so-called High Representative appointed by the US and the European Union was given full executive power with authority to overrule the governments of both the Bosnian Federation and the Bosnian-Serb Republika Srpska.

Economic policy was placed in the hands of the major international financial institutions. The constitution stipulated that the first governor of the Central Bank of Bosnia Herzegovina was to be appointed by the IMF and "shall not be a citizen of Bosnia and Herzegovina or a neighboring State ..."

Furthermore the Central Bank was not allowed to pursue an independent economic policy and for the first six years "may not extend credit by creating money, operating in this respect as a currency board." That is, it could only issue paper currency where this was fully backed by holdings of foreign currency. International loans were not allowed to finance economic reconstruction but have been used to fund the military deployment under the Dayton agreement as well as repaying debts to international creditors.[11]

Having secured the effective recolonisation of Bosnia Herzegovina, the imperialist powers, with the US in the lead, have now moved to extend this process to the rest of Yugoslavia. As the publication of the Rambouillet agreement makes clear, the NATO military intervention was never intended to be confined to Kosovo but envisaged the occupation of the whole of Yugoslavia. In short, behind the propaganda barrage, the "objective mechanism of events" is nothing else but the drive to recolonise the entire region.

Notes

1. Michel Chussodovsky, *The Globalisation of Poverty* pp. 243-244
2 .Susan Woodward, *Balkan Tragedy* p. 7
3. op cit p. 15
4. Woodward op cit p. 18
5. cited in Doug Henwood, *Wall Street* pp. 294-295
6. cited in Asad Ismi, "Plunder With a Human Face", *Z magazine* February 1998
7. Michael Barratt Brown, "The War in Yugoslavia and the Debt Burden" in *Capital and Class* No 50, 1993
8. Chussodovsky op cit p. 244
9. Chussodovsky op cit pp. 246-247
10. Chussodovsky op cit p. 251
11. Chussodovsky op cit p. 256