Privatisation drive in Yugoslavia could provoke a "social bomb"

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A leading Yugoslav economist has warned the Serbian government that its privatisation programme could create a "social bomb".

Nebosa Medojevic, a member of the G17 Plus group of Yugoslav economic experts, was commenting on the consequences of an International Monetary Fund structural adjustment agreement drawn up last year for Yugoslavia and its constituent republics of Serbia and Montenegro.

Under the agreement, the newly created Privatisation Agency is issuing international tenders for 60 large and medium sized state-owned enterprises. Four thousand small enterprises are expected to carry out their own privatisation. The Agency also intends to start restructuring 30 conglomerates, including utilities, post, transport and television companies, in time for their privatisation in 2004.

Medojevic warned, "The Serbian government must expect this year a social bomb due to the great number of lay-offs in the privatisation process and the announced liberalisation of the prices of utilities and electric power. At the moment, nobody in Serbia is articulating the negative energy that is festering among the people and this energy could, through manipulation, acquire extremist forms and halt the reforms."

His comments were made at a recent trade union conference entitled, *Union strategy in the process of economic reforms*. Medojevic criticised the government's privatisation campaign, which goes under the slogan *Turn to high return*, saying it would only concentrate ownership in the hands of those that had acquired wealth unlawfully. Privatisation, Medojevic explained, has been "influenced by the financial oligarchies of the former regime which were the masterminds and main directors of the so-called October 5 changes." He was referring to the Western-backed political coup that resulted in the ousting of former Yugoslav President Slobodan Milosevic in October 2000 and the ascendancy of the so-called Democratic Opposition of Serbia (DOS).

At first glance, Medojevic's criticisms seem strange. After all, he is a member of the G17 Plus group that includes such governmental notables as Yugoslav Deputy Prime Minister and chairman of the Agency for Rehabilitation of Banks Miroljub Labus, governor of the National Bank Mladan Dinkic and Serbian Finance Minister Bozidar Djelic. The original G17 group was formed in 1996 and has maintained close links with the US Congress National Endowment for Democracy and its offshoot, the Center for International Private Enterprise. It has promoted itself as a non-governmental organisation of 17 independent economists (who often worked for the IMF and World Bank).

The G17 publication, *Program of Radical Economic Reform*, provided the basis for the programme of the DOS coalition and the IMF structural adjustment agreement. The Program called for the economic reform to be "undertaken as a shock therapy as its radical nature does not leave space for gradualism of any kind."

The IMF agreed. Its plan, signed by the Yugoslav, Serbian and Montenegrin governments in April 2001, laid out a three-year timetable for creating a free market, closing and privatising banks and industry and cutting welfare, jobs and workers rights.

The IMF and the DOS government are already claiming the structural adjustment plan is a great success. One of the first acts was to repay a $128 million IMF loan with a new loan from the Norwegian government. The authorities are discussing with western creditors ways to write off one third of Yugoslavia's foreign debt of $12 billion and reschedule the remainder. In this way, creditors hope to claw back much of the loans made as a result of previous reform plans drawn up for Yugoslavia. As a result of drastically reducing the money supply, inflation has decreased to 40 percent—a third of what it was a year ago.

For the IMF and the Serbian government, the new programme's success depends on a strict adherence to key economic targets that will further impoverish a war weary population. Last month, the Montenegrin government was severely reprimanded for its attempt to grant a $90,000 subsidy to one ailing company and a $250 million World Bank loan was made conditional on the closure of four of Yugoslavia's largest banks.

IMF targets include the removal of price controls on most commodities—electricity prices have increased by 150 percent—and a wage freeze. The average wage is less than $50 a month, one eighth of that in 1990. Public sector wages will be kept down by linking them to a "base wage" that is less than the current minimum wage of $40.

Half of the 30,000 workers at the giant Zastava automobile factory were made redundant last September contributing to the 40 percent of workers already unemployed or on "forced leave". The government is introducing a new Labour Law that will reduce employment entitlements and promote flexibility. Statutory maternity leave will be reduced from five years to one and redundancy payments from one year to five months. The government also issued a reduced list of approved drugs for hospital use and raised the retirement age by three years.

Concerns remain, however. The IMF/G7 Plus plan faces several problems. The programme claimed that money raised from the write-off and rescheduling of debt, increased taxation, foreign investment and privatisation would be used to cushion the social consequences of mass unemployment and lowered living standards. This has clearly not taken place, leading to rising social tensions.

According to Serbian Prime Minister Zoran Djindjic, the plan was set back last year because of delays in debt rescheduling and large shortfalls in foreign investment and privatisation receipts. Latest figures show a widening trade gap between exports of $1 billion and imports of $2.3 billion, making debt repayment more difficult. Foreign direct investment amounts to just $77 million and 80 percent of taxpayers have refused to pay an income tax surcharge. Bribery and corruption are endemic.

Industrial production is still stagnant and there has been only a slight improvement in agricultural production after last year's severe drought. After a long delay, the government has just sold the first small batch of enterprises—three cement factories—to international investors but for $140 million less than expected.

The IMF has also identified "the former Yugoslavia's heritage of social ownership" as a major hurdle to privatisation. State ownership of enterprises was introduced in the 1950s under the slogan *Factories to the Workers*. Elected worker-management committees were given ownership of the enterprises and control of enterprise policy. In practice, this "self-management" was the process by which the Stalinist bureaucracy introduced competition between enterprises in a market environment and sought to transform itself into a new capitalist class.

The European Bank for Reconstruction and Development has admitted that recent various privatisation laws have enabled former ruling bureaucrats "to transfer some of the most profitable parts of enterprises and form their own satellite businesses".

Nonetheless, the IMF complains that the necessary wholesale privatisation of banks and industry continues to be hampered by outdated social ownership laws. The attempted sale of the prestigious Belgrade Moskva hotel is just such an example. It was almost impossible to discover which of the many worker-management committees technically owned the hotel. Another committee owned a food enterprise that rented the hotel restaurant and coffee shop.

To smooth the path for the take-over of Yugoslavia's assets by the transnational corporations, the Serbian government will offer free shares to those working in newly privatised enterprises. The Montenegrin government has distributed free shares to all its citizens for the sell-off of 242 enterprises. However, the experience of free shares in other countries shows that what is given with one hand is more often than not taken back by the other. Whilst a few workers in the most profitable companies may make some initial returns, it will be at the cost of downsizing and the undermining of wages and conditions.

Consequently, the authorities are desperate to ensure against the threat of social unrest. They are haunted by memories of the previous attempt at rapid structural readjustment. In 1989, Veselin Vukotic, one of the original G17 economists and architect of Montenegro's current economic reforms, was appointed Minister of Privatisation under Yugoslav President Ante Markovic to carry out a World Bank Financial Operations plan. As a result, half of Yugoslav industry collapsed, a quarter of the workforce lost their jobs and social programmes were destroyed. Wages slumped to 1960 levels. Hopes that the private sector would rescue the economy did not materialise. In order to divert working class resistance, the Stalinist bureaucracy promoted nationalism that led to the break up of the Yugoslav Federation in a series of ethnic wars.

Signs of social opposition to the latest measures are already apparent. When Serbian Minister of Economy and Privatisation Aleksandar Vlahovic attended a meeting with unions at the Zastava auto plant last summer, he was physically attacked during workers' demonstrations. Following more recent protests at the closure of four major public banks in January, the IMF warned, "social pressures are mounting and that the position of the reformers could be at risk. Therefore, when designing the [privatisation] programme, particular care should be given to ensure that the implementation of difficult fiscal and enterprise measures go hand-in-hand with the establishment of adequate social safety nets."

Medojevic's criticisms of the privatisation plans are aimed at providing an avenue for the union bureaucracy to facilitate collaboration with the Serbian Assembly in implementing the IMF Program. He already knows the invaluable role the unions have played in designing the plans and diverting workers anger. It was only after he had won the support of Milenko Smiljanic, President of the Independent Trade Unions, for the privatisation plan last April that Minister Vlahovic gave the go ahead. The recent Labour Law, Vlahovic said, incorporated all the suggestions raised by the three Serbian trade union organisations who will sit on the new social-economic councils set up to deal with the labour and social fallout from privatisation.

During the Zastava dispute, the unions endorsed a deal which gave workers the "individual choice" of redundancy at $90 per year of service, a retraining scheme at 45 percent of their wages or one of a small number jobs at an employment bureau. The unions banned all demonstrations and meetings on the day the deal was signed. When workers occupied the banks in protest against closures in January, the unions ordered them to be handed over to the receivers.