

THE POLITICAL ECONOMY OF ETHNO-NATIONALISM IN YUGOSLAVIA

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Alongside the real wars that tore apart the Socialist Federal Republic of Yugoslavia there has been an ongoing battle of interpretation. Were the wars caused by ethnic hatreds between national communities in the Balkan peninsula that go back centuries, or were they caused by cynical politicians who politicized and manipulated ethnic and religious identities to gain or retain power? Whether one sides with the primordialists or the constructivists, however, the central role of ethno-nationalism is not in doubt. Their agreement on this point was heavily influenced, moreover, by the propaganda campaigns of the real wars. Aware that their chief obstacle might be the reigning civic pluralism of their primary audience in Western capitals, those who won the battle for separation intentionally skirted nationalist rhetoric. They chose to argue instead that Yugoslavia was an artificial state that had no legitimate basis to continue. National communities came together to form Yugoslavia in 1918 and again in 1945, they asserted, but the voluntary basis of this pact and its legitimation in the internationally recognized right to national self-determination had never been respected. Now that democracy was possible in the former Titoist dictatorship, Yugoslavia's respective nations had the right to dissolve that union and form separate nation-states. Their choice for independence was not nationalist; it was for a more *natural* and *modern* state.

The Yugoslav collapse is hardly the first or even the bloodiest instance of ethnic warfare in the post-Cold War international environment, but its location in Europe and the stories of atavistic brutality that dominated journalistic coverage of the ensuing wars sent shock waves through Western publics. The result was a sweeping reinterpretation of civil conflict worldwide, and its pre-eminent threat to international peace and security, based on generalizing this

interpretation of the Yugoslav collapse. The post-Cold War era would be dominated by ethnic conflict. Wars during the Cold War came to be called ideological wars whereas those occurring since 1989-90 were labelled ethnic wars, or wars of identity.¹ In similar fashion to the influence that the first propaganda wars of the Yugoslav tragedy had on interpretations of subsequent developments there, no amount of scholarship demonstrating the minimal explanatory power of the ethnic-conflict label for contemporary civil violence,² or the unsubstantiated nature of the distinction between 'new' and 'old' wars,³ has been able to penetrate this new world view of contemporary conflict, based largely on Western reactions to the Yugoslav case.

This framing is unfortunate. In the case of the Yugoslav successor states – five at this time of writing, but two more likely on the horizon – the creation of nation-states out of multinational Yugoslavia did nothing to resolve the causes of the Yugoslav break-up and subsequent wars. Not only are the new states facing the same challenges that led to break-up, but the mystification of the causes as ethnic conflict has prolonged the disintegration scenario and appeared to prevent alternatives that might facilitate a different, and better, future. The same concern applies to the global generalization of the Yugoslav case. The global shift from political-economic to cultural understandings of politics and civil violence has actually diverted attention away from possible remedies and narrowed the options for resolving such conflicts, leaving many areas of the world in situations of frozen conflict or at the mercy of private remedies, including those of religious organizations, for what are properly public issues. Despite the apparent attention such culturalist explanations give to cultural particularity and national distinctiveness, their use in fact denies the particular institutional, historical, political, social, or economic characteristics of countries that do explain why political conflict can become violent and result in war. Ethnic conflict becomes a gloss in need of no further examination. In the Yugoslav case, and by extension in its generalization globally, moreover, the demand for national rights was in fact an attack on the socialist character of the regime (as embodied in the federal institutions and economic policy). But by justifying those national rights on ethno-nationalist grounds, on the claim that the Yugoslav state was artificial or dictatorial, or both, the propagandists deprived socialists, social democrats, and other left forces of any grounds for debate. Left-wing alternatives to right-wing forces are silenced by the simple act of non-recognition. Globally, this leaves few if any secular ideologies available for protest and mobilization by those disadvantaged in the contemporary conjuncture.

I. AN ALTERNATIVE EXPLANATION OF THE YUGOSLAV COLLAPSE

The Yugoslav model of socialism was an attempt to combine socialist ideals and policies at home with openness to the world economy – above all to foreign trade, aid, and supplements to the capital needs of their strategy for industrialization and national sovereignty. Forged in the heat of the early Cold War

period, first antagonizing the Americans, then the Soviet leadership, and after ex-communication from the Communist camp (the Communist Information Bureau) being embraced again by the Americans as a splendid propaganda opportunity, the system depended throughout its forty years on this particular balancing act between East and West. Its reformist position was most notable in its leadership of the nonaligned movement and its periodic advocacy of a new international economic order between North and South, but the core of the balancing act was a strategic bargain struck with the West: it would maintain a strong military capacity independent of Moscow, including a critical role in defence of NATO's southern flank against possible Soviet movement west, in exchange for Western economic assistance and membership in global economic organizations such as the International Monetary Fund (IMF), with its access to World Bank loans, association with European trading blocs (the EFTA and the EC), and by 1965, the General Agreement on Tariffs and Trade (GATT).

This bargain was to support a liberal, sometimes called 'market', socialist approach to economic growth and development. The economic ideology guiding that development strategy, as with any economic ideology, required for its implementation particular social, political, and institutional relations, above all a social organization of labour (employment in production, exchange, and administration). For reasons I discuss elsewhere, the Yugoslav system alternated between two models and their respective development strategies and organizational consequences, but the liberal model was preferred and its organizational requirements were the default institutions – economic management through regulation of money and prices, financial and operational autonomy for producers, and the incentive of economic interest (property rights and productivity-based incomes) for achieving rising productivity.⁴ Society would be organized around associations of producers (thus minimizing 'non-productive' employment such as in governmental bureaucracies or commercial firms), and social ownership would not only eliminate the antagonistic, irreconcilable conflicts between capital and labour, but allow labour to think like capital. As early as 1950, the primary principle of political organization was thus decentralization and the participation of direct producers (workers) in decisions about the allocation of net profit between wages and new investment (as an incentive to productivity and a long time horizon on wage increases).

Although this second principle, for which the Yugoslav system became particularly renowned, was called 'workers' self-management' (and even 'workers' control'), its objective was to give workers the right to decide how to rationalize the cost of labour: for example, by cutting individual wage levels temporarily, by plowing more of proceeds into productivity-enhancing investments, or by cutting the actual number employed – particularly, as in 1949–52 when it was introduced, in times of foreign trade crisis and skilled labour shortage. Autonomous workplaces were actually managed by directors and the administrative staff, although directors were formally elected by a workers' council; and the workers' councils – elected representatives of all those in production – tended

to be dominated by the labour aristocracy, highly skilled workers, of each period; indeed, the original purpose of workers' councils was to hand power back to staff when a tight labour market had given workers increasing power to demand higher wages than the country could afford. The principle of representation, and the need to get approval by an annual assembly of all those employed in the workplace (whether a factory, a school, a hospital, a grocery, or a foreign trade firm) of the budget, economic plan, and rulebook on wages and salaries, certainly instilled a widespread belief in political rights over economic assets and decisions; but the goal of workers' self-management was in fact to avoid raising employment (and thus the aggregate wage bill) above economic sustainability at the level of the firm, locality, and country as a whole.

This system of economic rights, however, belonged only to the sector of socially-owned firms and associations, while a second property sector of individual and household labour (in essence, a private sector) was permitted in agriculture and small crafts and trades, so as to absorb excess labour that could not be employed efficiently in the socialized, or public, sector. To ensure the capacity of this sector to absorb surplus labour and guarantee means of subsistence, regulations maintained small holdings (defined in terms of land, number of employees, market profits, or other capital assets) and prevented consolidations and accumulation that might generate true proletarianization.

But the critical characteristic of this system was that employment status defined the identities, economic interests, social status, and political loyalty of Yugoslav citizens. One's place of work was the centre of one's social universe. Social status, income guarantees, social benefits, and political rights to participate in economic decisions and to be elected to legislative chambers for the economy varied according to the sector – social or individual – in which one was employed. Political rights and incomes also varied according to whether one was in managerial, administrative, and professional positions paid for out of budgets (people on 'guaranteed salary') according to a sliding scale tied to rates of change in workers' incomes or in production ('associated labour'), and, in turn, according to one's level of education (professional, skilled, semi-skilled, unskilled). The level of territorial decentralization also meant, *de facto*, that one's economic and social prospects depended on the economic base of one's locality and republic (including its capacity to finance education and social benefits, to invest in employment generation, and to keep tax levels low). The social organization of employment in Yugoslavia thus defined individuals' economic, social, and political position, rights, and prospects.

This reform model of socialism was eventually also chosen by Hungary, Poland, and China, and in 1985, by Gorbachev in the USSR. These countries' experimentation with the political principles of decentralization and workers' participation remained only that, and crucially, their choice did not depend on the strategic bargain made by the Yugoslavs and the extent of its international exposure. The vulnerabilities of this political-economic model in a globalized economy were thus expressed most intensely in the Yugoslav case.

The dynamic of public policy in this Yugoslav system, from the late 1940s until the late 1980s, was driven by the federal government's response to changes in its international conditions – both economic and security conditions. The continuing need to give priority to external conditions, moreover, introduced a high level of unpredictability in federal policy, making planning and policy consistency difficult, at best. The best explanation of changes in federal economic policy can be found in crises in the foreign sector of the economy when the authorities could no longer resist adjustment to changed international conditions or when external shocks were so great as to require an immediate response. What I have labelled the Yugoslav leaders' Faustian bargain,⁵ gaining special access to foreign assistance and trade based on their international strategic position in the Cold War, led to an increasing dependence on Western capital and Western markets, and accompanying domestic policies of structural adjustment, to resolve balance-of-payments, foreign liquidity, or foreign debt crises. Yet the bargain also imposed limits on their methods of adjustment, because authorities could not alter their strategic choice, for example by cutting military expenditures or moving fully into one of the two Cold War camps.

A policy path driven largely by externally induced crises, moreover, is fiendishly difficult to manage domestically. For reasons I analyze extensively elsewhere, federal politics swung between a politics of economic redistribution among republican and local governments and one of competition for greater autonomy over social property, that is, the disposition of revenues, profits, and capital gains.⁶ But because property rights in the socialized sector were shared – among autonomous enterprises and local, republican, and federal governments (depending on the economic sector) – these property claims generated intense competition among multiple claimants for more exclusive rights (jurisdictions). In effect, federal politics was a continual competition for and over financial capital (rights to retain profits and foreign exchange, revenues for social funds and public budgets, bank credits, federal transfers, foreign aid), which generated an insatiable demand for foreign credits as one way to keep domestic peace and the economy growing.

Labour rationalization and identity politics

Why is this relevant to fighting identities after 1990? The only real method of adjustment to economic downturns or crises in this system was to rationalize the use of labour – that is, to cut the cost of labour (wages, benefits, number employed) or to increase labour productivity. As socialists, it was critical for the leaders that rationalization avoid mass layoffs and not threaten subsistence – in the jargon of the system, that it not lead to capitalist unemployment. The primary solution chosen was to move 'less productive' labour (as defined primarily by skills, and somewhat by discipline) from better status and pay to lower status and less well-paid positions, and to fire first those who were assumed to have alternative means of subsistence – women and young people (whose families would provide), rural migrants (on the assumption they could 'return to the land'), and those who could claim a retirement pension – and even to encourage some to

choose temporary work abroad. This solution required both detailed labour regulations and union approval of decisions on dismissal or transfer. A second method was to increase financial autonomy (and accountability, *khozrascët*) of economic units, such as firms, social services, or territorially circumscribed governments, so as to increase the directness of economic incentives to increase productivity.

The original social organization of employment to suit the leaders' development strategy thus became over time an entire society organized around labour rationalization – regulations on employment, reward, and reassignment. To improve one's prospects or protest one's disadvantage, individuals did not combine into associations to protest public policy, over which they would have little or no effect, given the orientation to foreign developments on the one hand, and the financial autonomy of workplaces on the other. Instead, they competed individually to improve their relative individual 'capital' (for example, increased schooling and certification, personal or political contacts and loyalties, or temporary migration for Western currency to invest in the individual sector of economic activity upon return home) as a means to a social sector job and the social status and benefits it conferred; or they appealed individually to the union or the courts against decisions to exclude them from such a position, or they combined to fight the individual criteria or collective categories of regulations on employment in the social sector.

Labour markets in this decentralized system of economic decision-making and reward, to the extent they existed at all, were local, or in a few instances, operated at the level of a republic (a unit in the federal system). Wage bargaining took place within the firm, with occasional input from local governmental or party authorities. Institutionally, therefore, there was no basis for a society-wide concept of collective interest as a counterweight to the social segmentation created by criteria for employment and income, or to the ongoing demands for greater autonomy over capital. Unemployment was high (and largely structural), but it was largely invisible. It consisted of persons shunted off to the individual and household sector of the economy, including women and retirees; young people who had no employment status into their late twenties because they could not find even a starting position; and in a huge temporary exodus for work abroad. And while the legitimacy of the League of Communists (as the Communist Party was known) seemed rooted in the rising standard of living (increasingly based on credit) of the overall population, its power depended on its international leverage.

The impact of neoliberalism

The 1980s were difficult times for the Yugoslav economy and its citizens. Foreign debt in 1979 was \$19.3 billion, and the decade from 1979 to 1989 was preoccupied with policies aimed at reducing the debt and replenishing foreign reserves, and at structural change that would enable the country to service its debt over the long term (in other words, export orientation to Western markets). The federal government had to undertake macroeconomic stabilization policies,

designed to meet the conditions of new IMF financing and cut domestic demand, and the refinancing of its commercial debt with private banks. This required a reversal of the policies of the 1970s which had handed such powers to the republics. Liberalization of foreign trade and the economy's orientation to price signals required a reintegration of the internal Yugoslav market and a recentralization of monetary, trade, foreign exchange, and incomes policies. Nonetheless, industrial (development) policy remained in the jurisdiction of the republics and thus the extent to which employment levels could be sustained (or their fall could be buffered, under the increasingly harsh austerity policies during the decade) depended on the economic policies of each republic. Within the harsh new constraints of federal policy, structural adjustment was the responsibility of the republics.

Political reaction to this change of economic policy and the institutional changes required to implement the change came primarily from those political and social groups who had the most to lose, and who also had economic and political resources to take initiative and gain attention. That is, reaction came from those now threatened with unemployment for the first time.⁷ At the level of the republics and provinces, the reaction to the new federal policies was strongest and earliest in Slovenia, the only area in the country where full employment reigned. As the primary producer of exports to Western markets, its voice could not be ignored. Equally important in the long run, the fact of full employment for nearly the entire post-war period had generated a political system within Slovenia that is usually associated with market (bourgeois) economies – parliamentary responsiveness, competitive elections, and a burgeoning civil society – which gave the republican government enormous resources to wield in a fight over federal policy. Like the EU countries it would be first in line to join as a parliamentary democracy after 1991, moreover, its economic policies were also protectionist, and opposed to federal policies and regulations that threatened its full employment, standard of living (wage and salary levels), and capacity to import new technology to remain internationally competitive. The IMF-defined stabilization program (i.e. devaluation and an end to the foreign-exchange retention quotas, an independent central bank responsible for monetary policy, limits on wage increases) threatened all of those goals.

Equally consequential politically was the threat of unemployment from the decade-long policy-induced recession that now faced the last bastion of social privilege in the country – the administrative stratum and its university-educated children. While the Slovene government was mounting its attack on federal policies – from simple refusal to implement them in Slovenia, to organizing an anti-federal coalition in the debate on political reform and eventually denying any federal jurisdiction in the republic when Slovene and federal laws or regulations were in conflict – the middle class aimed their protest at the institutions responsible for employment allocation in white-collar, managerial, and administrative jobs. The League of Communists (at the federal level, especially) was accused of corruption. The rules of positive discrimination according to national

identity (proportional quotas, called the 'national key') for any position of authority using federal funds or under federal regulations were declared in conflict with the meritocratic criteria necessary for economic growth. And the educational reforms being implemented during the 1980s that aimed to improve chances for social mobility for children of workers and peasants by eliminating the privileged *gimnazije* and its exclusive channel to university admission in favour of uniform secondary education were accused of the worst sort of levelling and political interference by socialist egalitarians.⁸ Because employment and educational policy were within the jurisdiction of the republics, not the federal government, moreover, this middle-class revolt combined with that of their republican governments to protect republican control over economic assets and tax monies, on the one hand, and to mount a political campaign against federal transfers and expenditures (namely, the defence budget, federal government offices, and the welfare and development-assistance transfers to poorer communities), on the other. The argument was that they were diverting resources needed for new investment and jobs. Redistribution was seen generally as reducing incentives to investment and efficiency, while the transfers through the federal development fund, in particular, were seen as a gross waste on the part of politicians and directors in the south interested in prestige projects of little value and protecting padded work rolls.

The critical role of employment status and labour policy in defining political positions and protest during the economic crisis of the 1980s can also be seen by looking at the poorest part of the south, the opposite end of the socio-economic and political spectrum from Slovenia. In the autonomous province of Kosovo (in the Serbian republic) unemployment was so high that eighty per cent of the population earned their incomes in the individual (private) sector – in household agriculture and crafts, petty trades, family businesses, and temporary labour migration to Switzerland, Germany, and Italy, but also Slovenia. Just as full employment in Slovenia shaped its political system, so the employment profile of Kosovo generated a social and political organization based on family and ethnicity, including large extended families to support a household-based strategy of economic diversification, and an entire parallel society as the basis for mobilizing collective political action against the regime. At the same time, provincial autonomy during the 1970s had promoted local university education to the point where per capita, the proportion of the population with university education and expectations of managerial, professional positions in the social sector was the highest in the country. For these Kosovo students, in particular, the best solution to their meagre employment prospects was full republican status within the federation, and thus full control over local investment policy.

The turn to nationalism

To express a defence of republican rights against federal policy in anti-communist terms would have undermined the ideological basis of the property and employment rights that these governments and urban middle strata claimed. Moreover, most of those engaging in this campaign were themselves members

of the League of Communists. The federal system, however, had been constructed to guarantee *equality* between the nations comprising Yugoslavia, independent of their numerical size. Each republic represented the right to self-determination of one of the six Slavic nations (Croats, Macedonians, Montenegrins, Serbs, Slovenes, and, eventually, Bosnian Muslims), and federal institutions required consensus and various proportional rules for representation, employment, and decision-making, on the grounds this would guarantee the cultural survival of even the smallest national communities.⁹ Thus, claims for republic-level control over economic assets were difficult to refute if made in the language of national rights, while invoking the veto power of republics in federal forums was an effective way to prevent the emergence of alternative political formations and coalitions (worst of all, ones that might cross republican lines, such as labour organizations or social movements at the all-country level). In a global era promoting decentralization, in fact, their states' rights claims could be seen by outsiders, at least, as progressive, in relation to individual rights and freedoms, rather than anti-democratic.

In a period of prolonged severe recession it is difficult to contain peoples' search for scapegoats. By 1984 already the official unemployment rate was above 20 per cent in every republic except Slovenia and Croatia, and inflation was at 50 per cent and climbing. In 1985, 59.6 per cent of the registered unemployed were under the age of 25 (and 38.7 per cent of people under the age of 25 were unemployed), and 25 per cent of the population was living below the official poverty line. The use of the 'national card' as a legitimating principle in the contest over economic and political reform would inevitably be a resource in individual competition for jobs and status, despite constitutional prohibitions against speech likely to incite ethnic and racial intolerance. Because of the national quota in government jobs, people hoping for white collar jobs in poorer, ethnically mixed areas were likely to see the quotas, rather than their own qualifications, as the cause of their unemployment or unmet expectations. Similarly, a labour policy that moved people among jobs within a firm, or out of the social sector into the subsistence haven of the private sector, to keep labour costs down and labour productivity growing, also invited speculation that special connections, including ethnic affinity, were the real reason for losing (or not gaining) a particular job. It also encouraged young men to attack women's rights and urban residents to criticize recent migrants from rural areas. For the most part, people played the 'national card', not as an expression of individual identities but as a language justifying property rights and specific governmental jurisdictions as these issues became acute.

By the end of the 1980s, this began to change. As economic growth did not resume and the IMF requirements became increasingly radical and draconian, the politics of exclusion from public sector jobs in order to protect the incomes and status of those who remained came to focus on the very criteria of citizenship itself. When changes in the federal constitution to implement the economic reforms of 1988-89 required harmonizing republican constitutions with the

federal amendments, the republican legislatures seized the opportunity. From a set of rights and governmental jurisdictions aimed at equality of all citizens regardless of national identity, national self-determination in the revised constitutional preambles appeared to be limited exclusively to the majority national group in each republic – Slovenia for the Slovenes, Croatia for the Croats, Macedonia for the Macedonians, Serbia for Serbs, Kosovo for Albanians, and so forth – and thus to protect the shrinking stratum of positions paid out of public budgets for people from the majority nation in each republic. The rhetoric of ‘exploitation’ was transferred from its Marxist origins to economic relations between nations in the federal system and began to be used by individuals to explain their declining fortunes.

Yet the social basis of this continuing revolt remains indisputable if one compares the almost total silence that accompanied simultaneous legislation aimed at attracting foreign investment to Yugoslav firms. In an enterprise law written by Slovene economic reformers and passed by the federal parliament in 1988, granting to foreigners not only ownership rights above 50 per cent (previously prohibited) but also the right of all managers to hire and fire workers freely, the core institution of Yugoslav socialism disappeared overnight. Moreover, the federal government was itself in line for demolition as the Slovene government launched multiparty competitive elections at the republican level in April 1990 and then reneged on its commitment to hold federal elections at the end of the year, once the round of the other republics’ elections was complete. Perhaps the most defiant version of the election rhetoric, that of the presidential candidate in Croatia, Franjo Tudjman, illustrates the extent of the shift that had taken place in public employment criteria. According to Tudjman the goal of the election was ‘de-communization’, which was, he said, synonymous with ‘de-Serbianization’.¹⁰

Democratic elections and civil wars, unfortunately, are games of numbers, not rights. Such nationalist rhetoric could appeal to those who had never been included in the socialized sector of the economy, or who had been excluded in the labour rationalizing policies on the argument that they were insufficiently ‘productive’. Resentments at their second class citizenship had led many during the 1960s to do whatever they could (move to the city, get a university education, join the party) to gain access to a socialized sector job. While this was rarely successful, by the 1980s prospects were so dim and numbers were so large that there was a large pool of people ready to find hope in national preferences. Public opinion polls in the middle of 1990, at the time of the republican elections, showed that 70 per cent of the population were still in favour of Yugoslav integrity, and also showed that the reform prime minister, Ante Marković, was the most popular politician. But by the time that republican parliaments and public referendums voted for independence (first Slovenia, then Croatia, both of which labelled it ‘dissociation’, then Kosovo, and so forth), it is not surprising that ethnically mixed communities would begin to witness ‘ethnic cleansing’ – physical expulsion of the minority group in a particular locality – or that accompanying violence would occur in areas of Croatia, Bosnia-Herzegovina,

Kosovo, and Macedonia which were nationally mixed. Rank-and-file recruits for the militias attached to political parties, the paramilitary gangs, and the new 'national' armies that terrorized areas of contested territory during each war came largely from the ranks of unemployed young men and urban unskilled workers, resentful at being excluded from the benefits of a system ideologically legitimated as workers' control, and resentful of the rhetoric justifying their exclusion on grounds of lesser social worth. Wars of secession and national independence, moreover, are eventually not about jobs but about territory. Land for those left in the individual (private) sector was a family's insurance policy, even if it pursued a household economic strategy of diversification, sending some children to relatives in urban areas for secondary and university education and others to work abroad and send back remittances. No ethnic identity is needed to provoke subsistence farmers to take up guns to defend their land.

II. NATIONAL INDEPENDENCE

The republican leaders who chose independence and war remained in power from their election in 1990 until elections in 2000 (except for Macedonia, where the change took place in November 1998). Despite the claims that national independence would provide an escape from the Yugoslav economic crisis because it would end the federal fiscal drain on the republics, prevent 'exploitation' by the other nations in multinational Yugoslavia, and remove the power of the communist party and the federal army to oppose democratic rule, except in Slovenia the opposite occurred. Elected politicians used their power and the cover of war to capture economic resources for their party coffers and their personal gain. Privatization of social property was preceded by nationalization and centralization, and then a process of deeply corrupt insider privatization. By 2000-1 all the governments except Slovenia were on the verge of bankruptcy, and all the states were hostage to the particular interests of the nationalist parties which had conducted the war and their coalitions of socialist-era economic managers with an economic agenda of rent-seeking, not investment-promotion. As with former Yugoslavia, all of the new states were financially unsustainable without foreign aid and remittances from the diaspora and refugees. Foreign aid was channelled through political parties and distributed for political patronage, not economic growth. As in the 1980s, external donors used all the economic and political levers they had at their disposal (including, in some cases, even to remove from office leaders chosen in free, competitive elections) to support politicians they called 'reformers', who would introduce liberalizing economic reform and cut public expenditures. And even more than in the 1980s, all the countries in the region had unsustainable current account deficits and growing foreign debt.¹¹ They remain vulnerable to unpredictable external factors beyond their control, generating as before high levels of uncertainty that work against business investment (whether domestic or foreign).

Moreover, public preferences regarding the role of the state had not changed. Citizens still wanted protective (some might say, paternalistic) states providing

public goods, welfare, services, and job security. Private (or market) provision was still viewed as supplemental – fees to private tutors, moonlighting, or bribes – and those who proposed private provision, for example of tertiary education or of health insurance, found the greatest and most effective opposition came from those employed in those public services, such as teachers or doctors. For the most part, the socialist-era legal regulations protecting employment and wage scales remain on the books, and their priority is to protect the breadwinner, that is, the male head of household who will be able to support the (unemployed) female and younger members of the family. The employment structure reflected a frozen age structure, while unemployment skyrocketed further and continued to grow, averaging in 2001, 22 per cent in Croatia, 32 per cent in Macedonia and around 50 per cent in Bosnia-Herzegovina and Kosovo.¹² As before, this unemployment fell disproportionately on new entrants to the labour force so that in the 1990s the high levels of youth unemployment of the 1970s and 1980s had more than doubled. While external donors and creditors pressed for the privatization of socialized sector enterprises, the primary distinction in labour markets was now between those working in the formal sector of the economy (paying taxes, subject to labour regulations, and so forth) and those working in the informal sector (including criminal activities) for lack of opportunities in the formal sector. Continuity also prevailed in the large proportion of unemployment that was long-term, and the predominance among the unemployed of those with low skills and educational qualifications.¹³

Although the constant theme in the constitutional quarrels of the 1980s was the size of the federal budget and its financing, public expenditures in the new states are far higher than in the socialist period, averaging 50 per cent of GDP. Moreover, these expenditures are for the two main categories under attack in the 1980s – the defence and internal security budget, now huge, and expenditures for public employment (now averaging about 50 per cent of the total) and for social redistribution such as pensions, unemployment compensation, and subsidies to heating, medicines, and social welfare. But in contrast to the socialist period, this fiscal redistribution has become increasingly regressive, protecting the jobs and incomes of those people who were employed in the social sector in 1990.¹⁴ Nor did this still-extensive redistribution and protective legislation ameliorate the economic hardships of continuing austerity, war, and economic sanctions in the case of Serbia, Montenegro, and, by extension, Macedonia; the greatest source of inequality was the income differentials that existed within the working population so that poverty was very acute, especially among the ‘working poor’. And while the World Bank, as the largest creditor, refrained from criticizing the new governments for their defence budgets (this being considered too political by the Bank’s lawyers), they did make loans contingent on cuts in social expenditures which meant – for example in Bosnia and Herzegovina – the rationalization of and sharp cuts in veterans’ benefits, along the lines demanded of the federal government by the Slovenes in the 1980s. Similarly, citizens attributed their poor economic conditions and poor public

services to political corruption and, in particular instances, to political favouritism from which they did not benefit.

III. THE GLOBAL REFORM AGENDA

The end of the Cold War should have provided Yugoslavia a way out of its crisis. The primary slogan and rallying cry of all of the anti-communist revolutions in Eastern Europe was 'return to Europe' and 'Europe Now!' (the latter was even the slogan of the League of Communists of Slovenia in 1989). Removing the constraints on trade, foreign aid, foreign investment, and travel imposed by the division of Europe was equated with an end to isolation, to second-class citizenship in Europe, and to exclusion from the prosperity associated with bourgeois society. For Yugoslav reformers, it would also eliminate the conditions of its Faustian bargain and the growing costs of military self-reliance and neutrality between the blocs, including the need to protect strategic supplies and defence industries regardless of the requirements of liberalization. Indeed, the Slovene campaign against the federal government was most vocally waged against the federal army and its fiscal drain.

Most stories of the Yugoslav collapse remain at the level of domestic politics and, at most, include various national adjustments to international conditions. Nonetheless, the extent to which the Yugoslav conflict has defined interpretations of any number of state failures, civil wars, and 'ethnic' violence in the post-Cold War period makes it irresponsible to ignore the role of common international conditions in these calamities. Moreover, while the Yugoslav collapse can be explained by internal politics, the ethno-nationalist path that it subsequently took cannot be explained in those terms. A number of alternative paths were possible, including those presented by associations of left intellectuals (the first new political parties to emerge) and advanced by workers (and expressed in country-wide demonstrations) and a range of interests organized along economic lines. Why ethno-nationalism won out can only be explained once international conditions are taken into account.

Three elements are particularly important. First, as discussed above, the entire socio-economic and political order of socialist Yugoslavia was designed in response to the particular conditions of international recognition of its national sovereignty (including the socialist regime), in 1949-50, and the ongoing policies necessary for foreign assistance and support. States are organizations governing territories and populations, and are embedded in a state *system*, including institutionalized relations with neighbours and membership in economic and security alliances and organizations. For all the constraints of its Faustian bargain, Yugoslavia's survival was not in doubt – until its stability and territorial integrity were no longer of strategic interest to the United States and NATO's southern flank. Despite the clear success of Prime Minister Marković's economic reform and his personal popularity in the country, neither the US nor the European Community states were willing to loan the instalment necessary in the spring of 1991 to pay the interest on the Yugoslav foreign debt and keep

economic reform on track. The contrast at the same time with Western aid to central Europe – Poland, Hungary, and then the Czech Republic – is striking.¹⁵

Simultaneously, Cold War constraints no longer stopped European states such as Austria, Germany, Switzerland, and eventually Italy, from encouraging the break-up by supporting the independence of Slovenia and Croatia and accusing the army and the Serbian government of aggression. The historical echoes of 1878, 1908–14, and 1939–45 in West European foreign policies were enough for some to accuse European powers themselves of ‘ancient ethnic hatreds’ and revenge. In contrast with central Europe, moreover, neither West Europeans nor Americans saw any reason to fill the security vacuum they had created in relation to Yugoslavia with something else.¹⁶

Their apparently negligent attitude can be understood once the second international factor we need to consider is introduced. The economic and political reforms that caused such contention during the 1980s, and led to the eventual break-up, were part of a global agenda, pushed by the US government and the multilateral institutions it controlled, promoting liberalization, privatization, stabilization, human rights, and democratization. Yugoslavia was only one of many countries that received bilateral aid, IMF and World Bank loans, and arms agreements in exchange for such domestic reforms. Nor was it alone in feeling the corrosive effects that these reforms had on the institutional arrangements and social commitments that underpinned social peace in most countries during the Cold War. With the end of the Cold War, however, this neoliberal agenda became a security policy as well. International peace and security were no longer to be achieved by international alliances among sovereign states and the obligations of membership in international organizations, such as the United Nations, and signatures on international treaties, but by extensive reform of domestic orders. Security communities as a constraint on the use of violence¹⁷ were now supposed to result from like-minded states and isomorphism in internal orders. A particularly striking example of this trend is the difference between the first EU enlargements in 1975–86 (for Portugal, Greece, and Spain) and 1989–95 (for Austria, Finland, and Sweden) and the strict conditionality toward applicant states from the east in the 1990s, which, in order to be considered for membership, are required to adopt nearly the entire *acquis communautaire*, consisting of thousands of laws in 30 Chapters, and be subjected to annual, public reviews of their progress toward market economies, democracy, human rights, peaceful relations with neighbours, and so forth.

This Western security agenda was applied with particular intensity, however, to the Yugoslav successor states. The wars and their refugee flows were seen as a direct threat to peace and stability in Europe. The failure of the Western powers, including the EU and NATO, to act early to end the violence became by 1995–98 a matter of organizational credibility. What happened in the Balkans would reflect directly on the reputation of transatlantic and European security and foreign policy. In June 1999 the EU and partners (including the US, Canada, Russia, Norway, and many international organizations) inaugurated the Stability

Pact for Southeastern Europe, promising eventual membership in the EU to the states in the region on condition of demonstrated cross-border and regional (Balkan) cooperation. This was followed by a new instrument of association with the EU, the Stabilization and Association Agreement (SAA), designed specifically for the countries of southeastern Europe, in which an additional layer of conditions was added to the already heavy conditionality addressed to central European candidates.¹⁸

At the same time, the attitude of the major powers toward the parties at war had led to substantial variation in treatment and status within the region. Slovenia escaped surgically from the region and from judgment, winning early admission in the first round of candidates for EU membership and, by 2001, an offer of early admission to NATO. Viewing Croatia as a victim of Serbian aggression and a partner in the strategy to end the war in Bosnia-Herzegovina, the US and Germany supported Croatia in the form of a strategic alliance (including American military assistance) and special access to World Bank aid.¹⁹ Economic assistance to Bosnia-Herzegovina in the first three years after the signing of the Dayton peace framework went solely (98 per cent) to the Bosnian-Croat entity (the Federation), while aid was withheld from the Bosnian-Serb entity until political demands (such as arresting and extraditing indicted war criminals to the Hague Tribunal on former Yugoslavia and allowing refugees to return home in the Republic) were met, with long-term consequences for sharply uneven development within the country. Economic sanctions and diplomatic isolation were imposed on Serbia from November 1991 until the electoral defeat of the Milošević government in late 2000 as a means of leverage to obtain political cooperation (the US continued to withhold most aid into 2002, with a renewal in June 2002 for another year of 'extraordinary measures' against Yugoslav firms), while direct budgetary support, development aid, and security assistance began to arrive in Montenegro in 1998 as a means of pressuring the Belgrade authorities (with direct consequences for the Montenegrin government's decision to seek independence and further Western support). Even Macedonia and Albania were rewarded with NATO assistance and small steps toward association with the EU as part of the policy to isolate Serbia, although economic assistance centred largely on border control and police training (to address the networks of drug and human trafficking into Western Europe), not the dire economic consequences (especially for Macedonia) of the policy of economic sanctions on its main trading partner, Serbia.

Despite this variation, all countries in the region had to meet the conditions of membership in the IMF – policies to settle foreign debt arrears that are nearly identical to those guiding economic and institutional reform in Yugoslavia during the 1980s – in order to gain access to World Bank loans, negotiate with their foreign creditors in the Paris and London Clubs, and participate in world trade and capital markets. All economic aid was in support of the same package of neoliberal, domestic economic and political reforms. Ignoring their negative experience with the same 'reforms' in the 1980s, and more nuanced programs

for the transition advanced by many economists and political associations, all the governments have acceded to these conditions and given priority to macroeconomic stabilization, rapid privatization of the banking sector and socialist sector enterprises, and foreign trade liberalization.²⁰ As in 1988–90 under Yugoslav prime minister Marković, priority is being given to economic reform, not political development, with the aim of enticing foreign investment for their long struggle for recovery and reconstruction.²¹

This clear re-emergence of what I labelled the Faustian bargain for socialist Yugoslavia – i.e., the fact that all the current states in the region are being required to trade a particular role in Western security (defined by outsiders) for economic assistance, and that all of them are already dependent on foreign aid and its conditions for the long haul – may help to explain the lack of change in crucial political characteristics discussed above: we continue to witness a protectionist, even paternalist role of the state for selected groups, capture of the state for personal and party political aggrandizement, and a lack of domestic policy instruments to manage the economy. The absence of an autonomous domestic politics more than a decade after the break-up attracts increasing commentary and worried concern.

This is most poignant when we consider the third element of international influence that cannot be ignored – the role of external mediators (primarily the EU and the US) in negotiating frameworks for resolving the ongoing process of disintegration and the international protectorates used to ensure their implementation. The development of a new security architecture for Europe and the Western alliance after the Cold War has been driven largely by response to the Yugoslav conflicts. Having accepted the accusation of failure toward Bosnia-Herzegovina (and perhaps Croatia), the US, EU, and NATO began to intervene in the midst of conflicts over statehood and national rights in order to restore their credibility and develop mechanisms for the new challenges they face. In August–November 1995, the US and NATO forces intervened to end the war in Bosnia-Herzegovina, to impose a peace agreement, and to begin an international mission composed of 55,000 NATO troops (declining to 12,000 by October 2002) and a complex civilian administration set up to implement that agreement and to transform Bosnia-Herzegovina into a market economy and a multi-ethnic, liberal democracy. In March 1999, NATO powers chose to intervene in the conflict between Albanian secessionists in Kosovo and the Belgrade government with a 78-day bombing campaign against the Federal Republic of Yugoslavia to force the Yugoslav army and internal security forces out of the province and replace it with an international protectorate established by UN Security Council resolution 1244. In 2000, the EU and the US intervened to prevent incidents of violence between the Macedonian government and Albanian nationalists from escalating into full-scale war by imposing the Ohrid framework agreement (and its adoption by the Macedonian parliament) and to send a NATO-led security force to help implement its security provisions. In 2001–2, the EU intervened with another imposed agreement to end the constitutional dispute between Serbia and Montenegro.

Each of these agreements takes as its working premise that the war-threatening conflicts are ethno-national, and that the only way to peace is to design constitutional rights and protections according to ethnonational identity. Power-sharing principles, such as proportional distribution of government ministries to national groups, guaranteed seats for minorities in parliaments, extensive decentralization (including fiscal powers) to give minorities local autonomy, and complex electoral and decision-making rules to provide group protection (such as concurrent vetoes on matters deemed of 'vital interest' to national groups) characterize all of the third-party negotiated agreements – for eastern Slavonia in Croatia, Bosnia and Herzegovina, Kosovo, Macedonia, and Serbia/Montenegro. In effect, each agreement institutionalizes the power balances and group demands of those able and willing to use violence at the moment of outside intervention to negotiate a settlement. Some are intentionally temporary, such as the framework for Kosovo, while others freeze a particular situation and thus are *de facto* temporary.

At the same time, the international administrations tasked with implementing these framework agreements are under instructions to defeat the nationalists and restore commitment to multi-ethnicity, including the reversal of 'ethnic cleansing' with the return of refugees and displaced persons to their prewar homes. The tension between those institutionally empowered by the peace frameworks and this additional international agenda means not only that the agreements are not self-enforcing but that they have required ever increasing dictate by outsiders and a prolongation into the distant future of the international military and civilian governing presence. Their constitutional provisions (such as group rights, fiscal decentralization, and decision rules) appear to be both financially unsustainable without long-term foreign assistance and in conflict with the required economic and political reforms of the neoliberal consensus.

IV. CONCLUSION

The Yugoslav wars of the 1990s had a profound influence on people's general perceptions of the new world environment after 1989. Ethnic conflict, tribal atavisms, civilizational clash, identity politics – these would replace the ideological confrontation of the Cold War. What is so striking about the actual Yugoslav wars and post-Yugoslav outcomes, however, is how much the fights were actually about the same issues of economic security and insecurity of individuals and families, waged between the propertied and dispossessed, the relatively better off and worse off, over public expenditures and redistribution under conditions of growing economic austerity and adjustment to the global economy. The fight is still over state power and political rights, but now based on ethno-nationalist claims, not alternative ideologies and parties.

Nor does there seem to be any change over the long period 1979–2002 in the US-led global reform agenda. What have changed are the instruments and agents of this neoliberal, anti-social justice project. Economic and political 'reform' in the 1970s–80s was accomplished largely by economic conditionality, on terms nego-

tiated with government officials behind closed doors, whereas since 1990 it was increasingly dictated by diplomats negotiating political deals, and by military and civilian officials administering international protectorates or conditions for membership in organizations such as NATO and the EU. While IMF-type conditionality continues to be used to force liberalization, economic assistance and trade relations are also increasingly used as political leverage to secure governments' compliance with political demands from major powers. And although the goal is said to be democracy as well as free markets, when governments do not move at an appropriate pace to meet such demands, the general consensus is that outsiders have not been sufficiently interventionist and assertive.

The convergence of economic and security interests among the major powers, banks, and investors takes a different form than during the Cold War, but its outcome – at least in the ex-Yugoslav cases – is eerily the same. Authoritarian socialism has been replaced by parliamentary democracy and private property, but the three constraints on socialist Yugoslavia that can be said to have brought about its ruin – foreign economic aid, trade and investment dependent on particular security relations, political institutions defined by ethnonational rights, and government policy driven by the demands of major powers and creditors – continue to characterize its successor states, with no alternative in sight.

NOTES

- 1 Particularly influential has been Chaim Kaufman, 'Possible and Impossible Solutions to Ethnic Conflict', *International Security*, 20(4) (Spring), 1996.
- 2 Two representative examples are Paul Brass, *Theft of an Idol*, Princeton, New Jersey: Princeton University Press, 1997, and Nicholas Sambanis, 'Partition as a Solution to Ethnic War: An Empirical Critique of the Theoretical Literature', *World Politics*, 52(4) (July), 2000.
- 3 See the very useful criticism of this distinction by Stathis Kalyvas, "'New" and "Old" Civil Wars: A Valid Distinction?' *World Politics*, 54(1) (October), 2001.
- 4 *Socialist Unemployment: The Political Economy of Yugoslavia, 1945-1990*, Princeton, New Jersey: Princeton University Press, 1995.
- 5 Woodward, *Socialist Unemployment*, in particular chapter 7 (pp. 222-59).
- 6 *Ibid.*, in particular chapter 8 (pp. 260-309).
- 7 Poorer areas of the country and the disadvantaged (such as the private sector, the unemployed, and the producers of goods no longer in demand such as primary commodities, import-substituting and other heavy manufactures, goods produced for the Eastern market) were only in a position to ask for federal credits, exemptions, and transfer payments to buy the time they needed for adjustment.
- 8 Yugoslav parents reacted to this reform as if it were another plot by the communist party to limit individual merit, but the reform was actually initiated in the early 1970s after an OECD pilot project for all

- Mediterranean countries in the 1960s, patterned after trends taking place in Western Europe at the time.
- 9 These protections were actually under attack by the efficiency-oriented reforms and IMF conditionality program, which only reinforced opposition to the program from those who wanted to protect republican rights.
 - 10 Minority Serbs in Croatia, comprising 12.2 per cent of the Republic's population at the time, referred in turn to their situation as having been 'erased from the Constitution'. And in a sense, they were, for they comprised less than 4 per cent by the census of 2001.
 - 11 For figures through 2000, see Vladimir Gligorov, 'The Role of the State in the Balkans', Vienna: Vienna Institute for International Economic Studies, 2002, pp. 4-5.
 - 12 Figures for Bosnia-Herzegovina and Kosovo are estimates and may actually be even higher.
 - 13 Researchers at the European Stability Initiative have demonstrated that the economic differences between rural and urban, private and public sectors of the Macedonian economy, with ethnic (Albanian, ethnic Macedonian) correlates, have not only remained high in the 1990s and of the same character as trends beginning in the early 1950s, but that these characteristics far better explain the current 'national' conflict within Macedonia that threatens the very integrity of that state and reveal 'underlying structural problems [that] must be addressed if Macedonia is to have any lasting prospect of stability' (executive summary) (ESI, 'The Other Macedonian Conflict', *ESI Discussion Paper*, 20 February 2002).
 - 14 I depend for these labour market data and evaluations on the empirical research done by Milan Vodopivec. His research has focused most intensively on Bosnia-Herzegovina, but the generalizations apply broadly. Vladimir Gligorov refers to the regressivity and the unusually large share of the population still employed in the public sector, in relation to their contribution to GDP, as 'selective paternalism'; so one could argue that 'concern for social justice has in many cases all but disappeared'. ('The Role of the State in the Balkans', pp. 15-6).
 - 15 See Laza Kekić, 'Aid to the Balkans: Addicts and Pushers', *Journal of Southeast European and Black Sea Studies*, 1(1) (January), 2001, for the facts and an analysis of the consequences.
 - 16 In fact, already in the mid-1980s, Austria and Italy created structures (first Alpe-Adria and then Pentagonale) to embed Slovenia and Croatia in their western neighbourhood, thus reassuring the two republics that they could survive independently and that there would not be a power vacuum of the kind that still exists for the other successor states.
 - 17 In the original Karl Deutsch sense (*Political Community and the North Atlantic Area; international organization in the light of historical experience*, Princeton, New Jersey: Princeton University Press, 1957).
 - 18 By 2001, the EU did introduce an asymmetric trade agreement for those

with an SAA (Croatia, Macedonia, Albania in 2001) which removed most tariffs. The difficulty with this favourable agreement was that economic and institutional conditions in these countries made it very difficult to produce the competitive exports meeting EU standards to take advantage of this gesture.

- 19 According to World Bank criteria, Croatia is too wealthy to qualify for its loans, but US representation on the Executive Board of the World Bank was used to override this qualification and even to urge a substantial lending program, despite its large military budget (50 per cent of government expenditures, not including reputedly large off-budget expenditures as well) and its painfully slow compliance with the terms of loans for financial sector reform during the late 1990s.
- 20 Slovenia, which had the most elbow room, has conceded least. By contrast, Serbia, despite a careful program for the transition having been prepared by the G-17 group of reform economists in opposition to the Milošević regime, has largely conceded (in large part because of what donors were willing to finance) to the standard model.
- 21 Donors appear to think the two are the same (see the conclusions of the Peace Implementation Council in May 2000 for policy toward Bosnia-Herzegovina, for example, where rapid economic reform is explicitly labelled 'state-building'). For a lucid criticism of this path, see the special report commissioned by the UN Development Programme on human security in southeastern Europe written by a team of Balkan sociologists and economists under the leadership of Ivan Krastev of the Centre for Liberal Strategies, Sofia, for the UN's annual Human Development Report of 2000: Ivan Krastev, et al. *Human Security in South-East Europe*, August 1999. On the misplaced priority to security over development of the World Bank regional program for the western Balkans, see Vladimir Gligorov, *The West and Economic Stabilisation of Western Balkans*, Vienna, 6 May 2000.