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Avramović's Contribution to the Transition to Market Economy in Yugoslavia

Summary: The paper is dedicated to Dragoslav Avramović, a unique personality who played a key role in a historically important period for Federal Republic (FR) of Yugoslavia. After the successful implementation of his macroeconomic stabilization program, Avramović wanted to implement other important economic reforms. In November 1995, he prepared the “Program II” that contained fifteen measures, one of which was the “Democratization of property relations”. Avramović formed a Working Group in April 1996 that was to prepare a privatization program for FR Yugoslavia. The program was soon ready, proposing obligatory, comprehensive and fast privatization of all enterprises in FR Yugoslavia, using a combination of different methods. However, Avramović's privatization program was not even officially discussed, since in mid-May 1995 he had to leave his position of Governor of the National Bank. The paper also points to the profound ideological differences among intellectuals at that time and to the wider consequences of Avramović's departure.

Keywords: Transition, Privatization, Property rights, Social property, Yugoslavia, Serbia.

JEL: L33, P26, P31, P50.

Dragoslav Avramović is known primarily for his contribution to monetary stabilization in the Federal Republic (FR) of Yugoslavia in early 1994, when one of the highest and longest hyperinflations in world history was stopped. Avramović implemented a radical monetary reform based on a currency board in early 1994, that brought inflation down from a 15-digit figure to zero almost overnight. Much less is known about Avramović's efforts to implement more fundamental economic reforms that were aimed at radically changing the systemic features of the Yugoslav economy. After the successful implementation of the monetary reform, Avramović wanted to proceed with important economic reforms required by the transition to market economy, but he encountered fierce resistance by the country's political elite.

After almost thirty years, Avramović's important role during those times is worth recalling. He was a unique personality, who tried to push transition-related reforms in FR Yugoslavia, during a particularly important period of its history. It should be recalled that FR Yugoslavia was under UN and EU sanctions from May 1992 until 1996 because of its involvement in the wars in Croatia and Bosnia and Herzegovina.

The suspension of the most severe UN sanctions in November 1995, a day after the initialling of the Dayton Peace Accords, and their official withdrawal later in 1996, was expected to mark a new beginning for FR Yugoslavia that would also bring a strong revival of the Yugoslav economy. In order to speed up radical economic reforms, primarily privatization, Avramović undertook a series of initiatives from late 1995 until May 1996. However, in mid-May 1996, he was forced to leave his position of Governor of the National Bank of Yugoslavia since he was not given a vote of confidence by the Federal Parliament.

This paper is dedicated to Dragoslav Avramović's contributions to economic reforms in FR Yugoslavia. Due to record hyperinflation in FR Yugoslavia in late 1992, Dragoslav Avramović accepted to be President of the Experts Team that prepared the "Program of reconstruction of the monetary system and strategy for the economic revival of Yugoslavia in 1994". The Program was adopted by the Federal Government on 16 January 1994 (Dragoslav Avramović 2007, p. 83) and was implemented on 24 January 1994, bringing down virtually overnight one of the highest and longest hyperinflations recorded in economic history (Pavle Petrović, Željko Bogetić, and Zorica Vujošević 1999; Milica Uvalić 2010, 2012). When he became Governor of the National Bank of Yugoslavia a few months later, Avramović wanted to prepare additional economic reforms in order to increase competitiveness and enable the integration of FR Yugoslavia into the world economy. He prepared the "Program II: Liberalization and transformation of the Yugoslav economy" that was officially announced on 25 November 1995. One of the fifteen points of his "Program II" was the "Democratization of property relations", a term that Avramović used for the process of privatization. Avramović received wide recognition and praise both within the country and abroad for the remarkable achievements of his "Program of reconstruction of the monetary system", but much less is known about his efforts aimed at changing the fundamental features of the Yugoslav economic system. Since he was forced to leave the position of Governor of the National Bank of FR Yugoslavia in mid-May 1996, he was not able to carry forward more radical economic reforms, primarily privatization that he regarded as one of the most urgent tasks.

The paper will describe in some detail Avramović's initiatives regarding privatization at that time. The main points of economic reforms announced in his "Program II" will first be discussed, the reasons why Avramović thought FR Yugoslavia needed a new privatization program, and the measures he undertook in late 1995 (Section 1). Avramović's further efforts in early 1996 are then recalled, primarily the creation of a Working group for privatization in April 1996 that prepared a Report ("Democratization of property relations on the lines of privatization") that proposed a new privatization program for FR Yugoslavia (Section 2). The strong divergence of views regarding key issues of privatization among the country's intellectuals after Avramović left the political scene in mid-May 1996 are also illustrated (Section 3), as well as the wider consequences of the non-adoption of Avramović's privatization program for the further implementation of privatization in Yugoslavia (Section 4). Avramović's overall efforts to implement faster political and economic changes in FR Yugoslavia are emphasized in the concluding part (Section 5).

1. Avramović's "Program II": Announcement of Additional Economic Reforms

At the time when the "Program of reconstruction of the monetary system in Yugoslavia" was being prepared, Avramović was well aware of the urgent need for additional economic reforms. However, he considered that the first step, the most important condition for realizing all further objectives of the market economy, was a strong currency. He was against the simultaneous application of stabililzation, liberalization and privatization, because he feared that such an approach would undermine the success of monetary reconstruction that in 1993 had priority (Avramović 2007, p. 48). Macroeconomic stabilization carried the risk of increasing unemployment due to a possible liquidity crisis, that could lead to massive workers' resistence and social protests. He thought it would be better to implement economic reforms in phases, starting with the reconstruction of the monetary system as the most urgent task. This opinion was also dominant within the Experts Team that was preparing the "Program of reconstruction of the monetary system of Yugoslavia" (see Avramović 2007, p. 48).

Once he became Governor of the National Bank of Yugoslavia, Avramović started work on further economic reforms for FR Yugoslavia in early 1995, laid out in his "Program II: Liberalization and transformation of the Yugoslav economy". The Program was adopted by the Council of the National Bank of Yugoslavia on 6 November 1995 and was soon after approved by the Federal government and the governments of both republics. Avramović officially announced his "Program II" on 25 November 1995. The main objectives of the "Program II" was to increase competitiveness of the Yugoslav economy in order to achieve an increase in income, employment, wages, ensuring price stability and rising state revenues. Only through an increase in competitiveness of the Yugoslav economy would it be possible to attract foreign capital, given that national savings were insufficient to finance the reconstruction of fixed capital and economic recovery. As stressed by Avramović, "We need our domestic capital that is abroad, and we need foreign capital" (Avramović 1995, p. 2). Increasing competitiveness of the Yugoslav economy required two key economic reforms: the liberalization of the domestic market, and the liberalization of the foreign market.

Avramović's "Program II" proposed fifteen groups of measures. The first five were measures regarding current economic policies, while the other ten were measures focusing on radical changes of the economic system. Four groups of measures were to ensure the opening up of the Yugoslav economy: the abolition of licences and quantitative restrictions on imports and exports, the reduction of customs and other duties by 10-30%, an increase in excises on alcohol, tobacco and luxury cosmetics, and the application of anti-dumping measures on imports. Another six groups of measures were to facilitate the restructuring of the Yugoslav economy: the democratization of property relations, incentives that would stimulate capital imports, protection of employment and income, reduction of the tax burden, abolishment of most price controls, and the taking over of the government's Payments Service on the part of the National Bank of Yugoslavia.

Avramović considered that the democratization of property relations is necessary primarily because of insufficient competition within the Yugoslav economy. He wrote, “We have .... an industrial structure in which raising prices has become an unfortunate habit ... This is why we must implement the decentralization of industry and the deconcentration of industrial property” (Avramović 1995, p. 8). The main problem at that time was that a large part of the economy was not responsible to anyone: “Our industry now is neither controlled by shareholders, nor by the state, nor by an external political force. This situation must be changed” (Avramović 1995, p. 8). The Yugoslav economy must begin to bear the consequences of its actions and, “at least in my view, those that are employed must get shareholding rigths in the control of the economy” (Avramović 1995, p. 8). He was aware of the need to acknowledge the different positions of the political parties, but he was also aware of the urgent need of economic transformation that would lead to higher efficiency of Yugoslav enterprises. “Various political parties have different views. This is a political question par excellence ... It is a political question in the sense that our society must finally decide in which type of (political) order it wants to live. This must be decided by political parties” (Avramović 1995, p. 9). On the other hand, the problem of efficiency was central, so it was necessary to explore to what extent these two principles could be reconciled. “Personally, I think this is possible, I think we are able to have all the advantages of a market economy with a capital market, together with fully democratic relations in our society” (Avramović 1995, p. 9).

At that time, a very small part of the Yugoslav economy had been privatized. The first wave of privatizations was undertaken in 1989-90 according to the Federal Law on Privatization of the Socialist Federal Republic (SFR) of Yugoslavia (“Zakon o prometu i raspolaganju društvenim kapitalom”) adopted in December 1989 and revised in August 1990 (see Uvalić 1992). Because of the long tradition of self-management in Yugoslavia, the law envisaged the sale of enterprise shares primarily to employed workers under privileged conditions. Enterprise shares were to be sold to employed workers (current and former), citizens and pension funds at a 30% discount, but current and former workers had an additional 1% discount for every year of employment, up to a maximum of 70% of the nominal value of shares, and the repayment period was 10 years. The application of the Yugoslav federal law from mid-1990 until mid-1991 brought to the initiation of the privatization process in 1,220 social enterprises in Serbia, or 33% of the total numnber of enterprises earmarked for privatization (Miodrag Zec et al. 1994, p. 228; Uvalić 2010). After the disintegration of SFR Yugoslavia in mid-1991, Serbia adopted a new privatization law in 1992 that was based, as the previous one, on the offer of enterprise shares to employed workers and managers under priviliged terms, but the conditions were stricter than in the previous law (lower discounts and shorter repayment periods). More restrictive conditions of the new law and the deterioration of economic conditions in the country substantially slowed down the process of property transformation in Serbia (Zec et al. 1994). Soon after, in 1994, amendments to the privatization law were adopted that practically cancelled a large part of undertaken privatizations. The new provisions required the obligatory revaluation of enterprise capital, but due to inappropriate revalorization coefficients introduced by these amendments, social capital was overvalued, in this way substantially reducing the relative share of privatized capital within enterprises that had started privatization (Ivan Vujačić 1995).

Due to limited results of privatization of enterprises in Serbia, especially after the adoption of the amendments in 1994, in the mid-1990s an intensive debate took place on the most desirable model of privatization for Serbia. At that time, Avramović wanted to consider all privatization proposals in order to determine who should get enterprise shares, at what price, and why. He also wanted to explore how to avoid adopting solutions that would lead to excessive concentration of wealth and power, as typically happened in Eastern Europe, while at the same time ensuring what had proved to be the correct option in the whole world, namely "that the market gives superior results with respect to those obtained through administrative methods" (Avramović 1995, p. 9). Given that the "Program II" envisaged an enourmous change in working methods and the system of decision-making that had been used during the previous 50 years, Avramović was himself sceptical about the prospects of its implementation. Nevertheless, he thought that resistence could be overcome, because "resistence often emerges out of ignorence, prejudices or specific interests" (Avramović 1995, p. 9).

A few weeks before the announcement of the "Program II", on 8 November 1995, a conference on privatization was held at the Invest Bank in Belgrade that attracted a large number of participants. Various concepts of privatization were presented and discussed. Dragoslav Avramović also attended the conference, interested to hear the discussion about alternative privatization models for Yugoslavia. A number of studies had already been published in Yugoslavia, that had analysed the international experience with privatization in Eastern Europe and Yugoslavia (e.g. Veselin Vukotić 1993; Zec et al. 1994). As one of the participants at the conference, I stressed that privatization in many countries in Eastern Europe frequently led to diffused employee ownership – though quite unexpectedly, since advice of experts at that time was that it was preferable to have firm's property and control after privatisation in the hands of outside owners – and, drawing on Mario Nuti's analysis, explained that the insider's model of privatization does not necessarily have to lead to inefficiencies (Domenico Mario Nuti 1995; Uvalić 1995a)[1]. This spurred Avramović's interest and led him to commission a longer study on the theoretical debate and empirical evidence on employee ownership in both Western and Eastern countries (Uvalić 1995b), that was presented at an international conference on privatization at the National Bank of Yugoslavia in December 1995.

In order to explore the best solutions for FR Yugoslavia, Avramović in fact decided to organize an international conference held on 8-9 December 1995 at the National Bank of Yugoslavia, which gathered professors from both Western and East European universities and institutions. Although not all invited experts were able to attend the conference, most of them sent their written contributions that were published in a book in mid-1996 (Negoslav Ostojić and Norman Scott 1996). Among the participants were some of the most well-known experts on transition and privatization, including Jozef van Brabant, Mario Nuti, Paul Hare, Steve Pejovich, Michal Mejstrik,

[1] This was my first encounter with Avramović. After my presentation, he asked me what privatization model would I adopt in Serbia (see more in Uvalić 2010, 2012). This led to our intense correspondence regarding privatization during the next months, until he invited me to come to Belgrade in April 1996 to help with the preparations of his privatization program.

Daneš Brzica, Sandor Miszlai, Oleg Bogomolov. Opinions of the few participating economists from Yugoslavia were divided. Professor Oskar Kovač stressed that the self-managed enterprise already had all property rights (*usus*, *usus-fructus*, *abusus*) that had been given to the enterprise (but not to the workers) as a legal entity; since the self-managed enterprise is more efficient than the state-owned enterprise, there is no need to privatize it (Oskar Kovač 1995). Moreover, since the new Serbian and Yugoslav constitutions guarantee the equal treatment of all property forms, including social property, there are no legal foundations for imposing an obligatory privatization program on enterprises. The government can privatize state-owned enterprises, but does not have the legitimacy to sell something that is not in its ownership. What should be done is to enable enterprises to recapitalize their assets by collecting additional capital, not impose on them the obligation to privatize. A similar view was held by Professor Ivan Maksimović, who stressed that the social enterprise was in no way inferior to the private enterprise and that the Serbian and Yugoslav constitutions guaranteed the equal treatment of private, state and social property, but he did underline problems related to the unprecise definition of social property (Ivan Maksimović 1996a, b). Danilo Šuković and Veselin Vukotić, on the contrary, strongly supported further privatization in Yugoslavia based on a combination of various methods. Another participant warned that there will be strong economic, social, political and ideological barriers to privatization in FR Yugoslavia, proposing therefore, as the primary method, the sale of shares at privileged conditions to employed workers; this was the most politically acceptable option that would also lead to the transfer of social property to concrete owners in the fastest possible way (Uvalić 1995b). Although Avramović was not able to attend the conference due to last-minute health problems, the papers presented at the conference have undoubtedly strongly influenced his opinion about privatization.

2. Democratization of Property Relations in Yugoslavia: A Broad Consensus of Avramović's Working Group

Avramović was well aware of the fact that without radical changes in the property regime in FR Yugoslavia, there would be no substantial improvements in the economic situation. He stressed on various occasions that the inflow of foreign capital and privatisation of large enterprises were crucial for economic recovery, as well as the renewal of membership of FR Yugoslavia in international financial institutions. Soon after the conference in December 1995 he decided to start preparing a new privatization program for FR Yugoslavia, that was to serve as the basis for the adoption of a new federal law on property transformation. The adoption of a new federal law was necessary because of the constitutional obligation to replace all legislation of SFR Yugoslavia by new laws by the end of 1996, including the Law on Social Capital that had been adopted by the last Yugoslav government in 1989/1990. Issues regarding property reforms were in the parallel jurisdiction of both FR Yugoslavia and its two republics, Serbia and Montenegro. The new federal law on property transformation was to serve as a framework law in both Serbia and Montenegro, leaving the elaboration of detailed provisions to specific laws of the two republics. The legal basis of the new law on property transformation was Article 77 of the Constitution of FR Yugoslavia, that stipulated that it is the Federal Government that adopts and implements laws on property transformation.

In order to get a better insight into existing privatization proposals for FR Yugoslavia, Avramović commissioned a study on privatization by Šuković and Vukotić (Danilo Šuković and Vukotić 1996). A first draft of the study was prepared in February 1996, analysing the advantages and shortcomings of eight main privatization proposals in FR Yugoslavia, using various criteria (consistency, speed, motivation, development of financial markets, efficiency, comprehensiveness, social justice). The study also gave a detailed overview of the privatization experience in various East European countries and recommended its own "Model A" for Yugoslavia, that was based on the combination of various privatization methods (Šuković and Vukotić 1996).

Avramović took a further step on 23 April 1996, when he convened a "Working Group for the democratization of property relations on the lines of privatization", a term he used for the process of privatization in FR Yugoslavia[2]. The next day, on 24 April, Avramović also informed President of FR Yugoslavia, Slobodan Milošević, of his intentions regarding property reforms (that had also been announced in his previous letter on 26th October 1995). Although the Federal Ministry for the Economy had already prepared a draft law on property transformation, in his letter to President Milošević Avramović explained that his Working Group would soon examine possible property transformation options, in order to prepare a document that would be forwarded to the Parliament. As stressed in Avramović's letter, it was important to secure the democratic character of property reforms, by taking into account privatization proposals of different political parties, social and private enterprises, trade unions and Yugoslav economists.

There were three meetings of the "Working Group for the Democratization of property relations on the lines of privatization" (hereafter Working Group): on April 23, May 3 and May 10, 1996. Invited members of the Working Group were representatives of the most important political parties (Socialist Party of Serbia, Democratic Party, Democratic Party of Serbia, Serbian Renewal Movement, New Democracy); representatives of the Federation of Trade Unions of Serbia, of the Trade Union Nezavisnost and of the Serbian Union of Employers; directors of several banks in Serbia and Montenegro, as well as of some social and private enterprises; and the country's most competent economists from the Institute of Economic Sciences, the Economics Institute, CES MECON, the Faculties of Economics, Law and Philosophy of the University of Belgrade, the Economics Faculty in Podgorica and the Serbian Academy of Sciences and Arts. The Working Group with its 40 members was to discuss the central issues regarding property reforms and examine existing privatization proposals for Yugoslavia, in order to offer recommendations regarding the most appropriate approach. On the basis of Avramović's vision of property reforms and suggestions of the members of the Working Group, a document was prepared entitled "Democratization

[2] Avramović had invited me to come to Belgrade to help prepare his privatization program a few days earlier. When the Working Group was convened, he asked me to be the Secretary of the Working Group, which in practical terms meant that I was to draft the final document on privatization that was being prepared by the Working Group.

of property relations on the lines of privatization. The final report of the Working Group of the National Bank of Yugoslavia" (see Avramović and Uvalić 1996).

There were very different proposals on privatization in FR Yugoslavia at that time. The Democratic Party was proposing fast, obligatory, fair and transparent privatization through sales (during the first year) and the free transfer of social capital to all Yugoslav citizens. Radoman Božović (Serbian Socialist Party) was in favour of various methods based on sales and transfers to government funds. The Trade Union Federation of Serbia and some sectoral trade unions considered that workers' rights must be respected, suggesting that 51% of social capital should be transferred free of charge to current and former workers. The Serbian Employers' Union proposed a combination of sales and free distribution of vouchers to citizens. There were a number of other proposals on privatization that were also considered by the Working group, including those by the Economics Institute, New Democracy, Serbian Renewal Movement and Democratic Party of Serbia.

Avramović wanted to consider all privatization proposals in Yugoslaiva, in order to identify similarities among them and find a common denominator of the different views. His intention was to reach a political consensus among the members of the Working Group on the most important issues, but whenever this was not possible, the dominant view would have been adopted. This led to the drafting of a document that in its whole was acceptable to all members of the Working Group (Miroljub Labus 1997, p. 201).

At the first meeting held on 23 April 1996, the Working Group considered two questions: the main reasons why privatization is necessary in Yugoslavia; and central issues of privatization, including its comprehensiveness, main methods, and possible distribution of social property. Already at this first meeting, members of the Working Group were in agreement regarding some of the key issues.

First, there was a broad agreement regarding the *necessity* to implement privatization, as one of the main measures necessary for increasing competitiveness and efficiency of the Yugoslav economy. This was important in view of the obtained unsatisfactory privatization results and the low efficiency of social property, suggested by empirical studies that had demonstrated that private and mixed-property enterprises in Yugoslavia are more efficient and more profitable than enterprises in social property (e.g. Labus and Miladin Kovačević 1994; Zec et al. 1994, pp. 250-257). Second, there was a broad agreement regarding the *obligatory nature* of privatization, namely that the entire social capital must get concrete owners. Third, there was a broad agreement that privatization must be implemented within a *strictly defined deadline*, since this is likely to increase the international credibility of Yugoslavia, in this way also accelerating the inflow of capital from abroad. Fourth, there was a broad agreement regarding the *comprehensiveness* of privatization, namely that all enterprises are subject to transformation in all three property sectors (state, social, mixed); the only exception were some enterprises with a special status in the military industry, while some large infrastructure enterprises (e.g. in electricity or railways) could remain in dominant state ownership. Four main general principles of privatization were also agreed: its obligatory nature, avoidance of mass nationalization of capital, preventing massive transfers of capital to a small number of individuals, and avoidance of an automatic introduction of dominant insiders' ownership.

Avramović's privatization program was proposing a *combination of different methods* based on *sales and free distribution*. The methods included commercial sales of capital to domestic and foreign buyers, free distribution of shares to employees within certain limits, transfer of property rights or conversion of debt into enterprise shares (debt-for equity swaps), free distribution of vauchers to all citizens, conversion of debt of domestic and foreign creditors and of citizens' foreign currency savings into enterprise shares, restitution of property to former owners, transfer of shares to state funds. Using all possible privatization methods known at the time, everyone was to get a part of social property – workers, citizens, pensioners, creditors, the state.

Regarding the *privatization procedure*, the preparatory phase would include corporatization – the transformation of all enterprises into shareholding companies (or other enterprise forms), and the transformation of their capital into shares, along with the creation of a Parliamentary Commission for Privatization, that would guarantee the transparency and high-level expertise of the privatization process and would be responsible for giving permissions and controlling the implementation of concrete privatization programs. In the next phase, enterprises would be given a period of up to 4 months to autonomously chose the privatization program they wanted to implement. In case an enterprise did not chose a privatization program within the set time limit, a general scheme would be implemented that envisaged: (a) transfer of a certain proportion of shares to the Pensions Fund; (b) transfer of a certain proportion of shares to employed workers; (c) transfer of a certain proportion of shares to other citizens through vauchers, exchangeable for enterprise shares; and (d) offer on sale of remaining shares to interested buyers, domestic and foreign. Avramović considered that the decision on the concrete proportions to be given to each category was both an economic and political issue, that could only be decided by the Federal Parliament. However, in his letter to the representatives of the Federal Parliament that accompanied his privatization program, he proposed the following allocation of shares: 20% of shares to the Pensions Fund, 30% to employed workers, 30% to all adult citizens through vauchers, and 20% to the state for the restitution to former owners, employment programs, the restitution of citizens' foreign currency savings, and the repayment of government debt (see Avramović 1996, p. ii).

Avramović's program was therefore proposing obligatory, comprehensive and fast privatization of all enterprises in Yugoslavia, features that distinguished it substantially from the proposal of the Federal law that had been prepared by the Yugoslav government (that would be adopted on 15 May 1996 by the Federal Parliament). Avramović himself stressed four main differences between his privatization proposal and the one prepared by the Federal Government that are worth recalling (Avramović 1996, p. ii):

- First, Avramović's proposal envisaged workers' share-ownership as one of the foundations of the new system, because without this option a generally acceptable privatization process would have been unconceivable; while the Government's proposal was silent on this issue, since its main option was the sale of shares.

- Second, both Avramović's and the Government's proposal left to the enterprise the initiative to initiate privatization; but whereas in the first case all enterprises were to submit a privatization plan within four months, in the absence of which the general scheme would be automatically implemented, in the Government's proposal, if an enterprise did not take such an initiative, there would be no privatization. As wittily commented by Avramović: "The trick in the Government's proposal is that there is no privatization if the general director does not want it: because in our situation, it is the general director that controls the enterprise. But we are human, perhaps a large number of general directors will not launch an initiative that will deprive them of their positions. The government proposes permissive privatization; we, instead, propose obligatory privatization" (Avramović 1996, p. ii).
- Third, Avramović's proposal envisaged the establishment of a powerful institution for implementing privatization, a Parliamentary Commission, that could have been either independent not linked to any political party, or placed above all political parties, or representing the main political parties, a question that had to be decided by the Parliament; while the Government's proposal did not envisage any control mechanism of this sort.
- Finally, in Avramović's proposal, privatization was implemented immediately, there was no evaluation of the value of enterprises: an enterprise was to be transformed into a shareholding company and its shares were to be offered on sale on the market, which would instantaneously establish the value of its capital, since the market value is the only real value of an enterprise; in the Government's proposal, during the first phase that would last one year, the value of enterprises' capital was to be evaluated, but any attempt to do so was in advance condemned to failure, as stressed by Avramović: "The value of an enterprise is not what has been invested in it, but the price at which it can be sold today. To spend one year on this fruitless venture is to lose a year of privatization. In this sense, the Government's proposal is a plan for the postponement of privatization" (Avramović 1996, p. ii).

Avramović sent the final version of the Report of the Working Group on "Democratization of property relations along the lines of privatization" to the presidents of the Citizens' Council and the Council of the Republics of the Parliament of FR of Yugoslavia on 13 May 1996, with the request to be forwarded to all members of the Parliament. Although the legal deadline for submitting proposals for discussion in the Parliament had expired, Avramović consulted the leaders of the Democratic Party, Miroljub Labus and Zoran Đinđić, who found a way to insert Avramović's privatization program on the Parliament's agenda.

At the session of the Federal Parliament on 14-15 May 1996 when Avramović's privatization program was planned to be discussed as a counter-proposal to the draft law prepared by the Yugoslav government, Avramović was not given a vote of confidence. Consequently, his privatization program was not even considered. The new Federal law that was adopted on that occasion envisaged voluntary privatization, leaving to the enterprise the decision whether, when and to what extent it would implement privatization. The lack of willingness of the political authorities in Serbia to abandon the concept of social property have *de facto* brought solutions that have impeded fast, comprehensive and obligatory privatization, as was proposed by the Working Group of Dragoslav Avramović (Uvalić 2010, 2012).

It should be mentioned that at that time, Avramović was also FR Yugoslavia's Chief negotiator with the International Monetary Fund (IMF). During negotiations with the IMF in Paris in March 1996, Avramović was in favour of accepting the proposed conditions for the regulation of FR Yugoslavia's membership in the IMF, as this was important for the normalization of the country's relations with other international financial institutions and the most important Western countries. Regulating FR Yugoslavia's status in the IMF in 1996 was a crucial condition for facilitating the inflow of capital from Western countries, all other international financial institutions, the European Union, and private foreign companies. Regarding this issue as well, there were major disagreements between Avramović and the Yugoslav government. Avramović was openly in favour of the urgent return of FR Yugoslavia into the IMF, accepting the conditions regarding the repayment of foreign debt that the country had inherited from SFR Yugoslavia. However, this solution was not regarded acceptable by the government and its leading politicians.

Avramović's disagreement with the ruling political elite had forced him to leave his position of Governor of the National Bank of Yugoslavia in May 1996. At the Parliamentary session when he was dismissed, Avramović spoke about his disagreements with the Yugoslav government regarding monetary and fiscal policies, negotiations with the IMF, official reserves of former Yugoslavia, economic reforms and privatization, stressing some of the fundamental weaknesses of the country's economic and political system. He openly attacked the government for the ignorant, short-sighted and irresponsible policies which were, as he put it, suicidal and were likely to make Yugoslavia another Angola. He directly accused key politicians of their ignorance, incompetence and dishonesty, and he even disclosed information about manipulations behind his back within the National Bank of Yugoslavia (such as falsification of signatures, non-delivery of faxes, or payments of fees to external collaborators without his knowledge). With his speech, Avramović had discredited the political regime as probably no one had done until then. He was accused of "illegal" actions, but the truth is that he was forced to leave simply because he wanted to pull the country out of isolation and backwardness. It is an irony that he did not get a sufficient number of votes that day in Parliament primarily because of the betrayal of the leading Montenegrin party (Socialist Peoples' Party, SNP), which until then was one of his most faithful followers and supporters (see Uvalić 2010, 2012).

3. Divergence of Views and Ideologies at the Serbian Academy of Sciences and Arts

On 29 May 1996, two weeks after Avramović had left the position of Governor of the National Bank of Yugoslavia, Ivan Maksimović, Professor at Belgrade University and member of the Serbian Academy of Sciences and Arts, organized a round table in the Serbian Academy in Belgrade in order to discuss the privatization program prepared by Avramović and his Working Group. Among the invited participants, in addition to Avramović and members of his Working Group, were also some of the most distinguished members of the Serbian Academy, including professors Mihailo Marković, Nikola Čobeljić, Miloš Macura, Aleksandar Fira. Three introductory speaches opened the round table: by Dragoslav Avramović and Milica Uvalić ("Democratization of property relations along the lines of privatization"); by Academician and Professor Mihailo Marković ("On social property and privatization") and by Academician and Professor Ivan Maksimović ("A view on problems of privatization – A reflection on the text by dr. Dragoslav Avamović and prof. dr. Milica Uvalić, "Democratization of property relations"). The introductory speaches were followed by an intense and interesting discussion.

The Round table at the Serbian Academy of Sciences and Arts clearly illustrated the fundamental disagreements between Avramović and his lifelong colleagues, primarily Mihailo Marković and Ivan Maksimović. Although at that time, transition to market economy had already well advanced in many countries in Eastern Europe, in Serbia there was still strong resistance and lack of willingness to accept that the country should also implement radical economic reforms such as privatization. The memory of the long experience of socialist Yugoslavia, as a country that had a specific economic system based on workers' self-management, social property, socialist principles with many ingredients of the market economy, was still fresh and deeply rooted in the minds of many individuals. Whereas there is no doubt that SFR Yugoslavia was for decades ahead of other East European countries – regarding market-oriented reforms undertaken from the early 1950s, extent of decentralization and economic openness, privileged international relations (with the West, East, European Economic Community, within the Non-alignment movement), at that time there was still a lack of understanding, awareness and will to accept – as Avramović had done – that the times had radically changed, that history had gone forward after the fall of the Berlin Wall in November 1989, that in a large part of Eastern Europe fundamental changes of the economic and political systems had taken place – changes to which FR Yugoslavia should also have adjusted as fast as possible.

The conference at the Serbian Academy of Sciences and Arts and the volume that was published thereafter (Maksimović 1997) represent a remarkable seal of those specific times in FR Yugoslavia. The divergence in views was especially present regarding the issue of property of the social enterprise, the interpretation of the concept of social property, and the question of whether privatization was really necessary. What was stressed during the discussion, in line with the views of Avramović's Working Group, was that social property could have been considered an advantage of Yugoslavia before 1989 in comparison with other countries in Eastern Europe where enterprises were in state ownership, but that thereafter, it had become a serious obstacle for implementing privatization. This was due to the ambiguous definition of social property in Yugoslavia, since property rights of a socially-owned enterprise, as defined in the 1974 Yugoslav Constituion, were not entirely in the hands of anyone – not of the employed workers, nor of the enterprise, nor of the state, and least of the whole society; such ambiguous and non-transferable property rights would negatively influence incentives of economic agents (Uvalić 1997, pp. 57-58). Without a concrete owner of enterprise property, the privatization process in Serbia was bound to be substantially delayed. Therefore, it was necessary to abolish social property through obligatory privatization as was done in other countries of former Yugoslavia, since this was the only way to make a clear distinction between the rights on the basis of work (employment) and the rights on the basis of capital (property) (Uvalić 1997, p. 58). Oskar Kovač sustained similar views to those exposed some months earlier at the National Bank of Yugoslavia, arguing in favour of the *status quo* and equal treatment of all forms of property, but his position was criticized on the grounds of his inappropriate interpretation of social property (see Uvalić 1991, 1992, 1997; Maksimović 1997, pp. 55-58). An intensive debate also took place between the Academician and Professor Mihailo Marković and Professor Miroljub Labus, that illustrated rather vividly the contrast of opinions regarding transition, privatization, social property, property relations, and the link between property and efficiency (see Labus 1997). The contrast exemplified the divergence of views between Avramović and members of his Working Group, and those that had remained faithful to the ideology of the previous economic system.

4. Implications of the Non-Adoption of Avramović's Privatization Program

Avramović's "Program II" and his "Program for the democratization of property relations" were proposed in order to prepare new and more radical economic reforms that were to be implemented in the aftermath of the announced withdrawal of UN sanctions against FR Yugoslavia. However, despite the suspension of UN sanctions in November 1995 and their official lifting on 2 October 1996, what remained thereafter was the "outer wall" of sanctions, which effectively impeded the entry of FR Yugoslavia into the United Nations and the most important international financial institutions (these issues would be regulated only in 2000, after the definite fall of the Milošević regime when Presidential elections in October 2000 brough a democratic government in FR Yugoslavia). Therefore, the political situation in FR Yugoslavia did not radically change over the next few years. There were no essential changes in the government's economic policies, particularly regarding key economic reforms. Some measures that Avramović suggested at that time in his "Program II", such as the liberalization of the foreign trade system or the abolishment of the government's Payments Service, were implemented only after the political changes in October 2000, when Miroljub Labus as Vice-president of the Federal government of FR Yugoslavia implemented a radical reform of the foreign trade system that abolished all import and export permits (already in December 2000). Similarly, it was Mlađan Dinkić, while Governor of the National Bank of Yugoslavia, that implemented measures to abolish the government's Payments Service.

Avramović's departure from the political scene and the non-adoption of his privatization program had important implications for the further slow process of privatization. A new Law on privatization in Serbia was adopted in 1997, that envisaged that around 7,000 selected enteprises in the social sector would be privatized "autonomously", using methods which offered employed workers and managers the most favourable conditions in share subscriptions (see Uvalić 2010, 2012). In the first round, employed workers, pensioners and ensured farmers had the right to receive shares free of charge of a dinar equivalent of DM 400 for each year of employment (the total amount could not exceed 60% of enterprise capital). In the second round, these same categories could buy shares at a 20% discount (plus 1% for each year of employment, but not exceeding 60%) and repay them within 6 years, up to the limit of the dinar equivalent of DM 6,000 per worker-shareholder, but employed workers had priority in bids. Unsold shares were to be transferred to the Shareholding Fund, which was to offer them on sale at the stock exchange. These provisions of the 1997 privatization law excluded 75 state-owned strategically important enterprises that were among the largest and most profitable firms, that were to be privatized later, and 514 state-owned enterprises that were to be privatized with the approval of the Serbian government as their founder.

The implementation of the new Serbian privatization law was exceptionally slow. There was an unexpected increase in the number of privatizing firms in Serbia only in December 2000, for very specific reasons. In addition to the government's announcement that privatization regulations would be revised, a strong devaluation of the Serbian dinar was implemented in December 2000, that had automatically increased the dinar value of free shares (expressed in German marks) that workers had the right to receive. This was a very strong incentive for enterprises and workers to start privatization, but still, until the end of December 2000, only 778 enterprises (11% of the total of 7,000 to be privatized) had decided to start privatization (Uvalić 2010, pp. 95-97). At the end of 2000, the contribution of the private sector in FR Yugoslavia was still only around 40% of GDP (Uvalić 2010, 2012).

The Presidential elections in FR Yugoslavia that marked the end of the Milošević regime and its replacement by a democratic government, first in Yugoslavia and some months later in Serbia, led to the preparation of yet another privatization law in Serbia. The new privatization law, adopted in mid-2001, represented a radical departure from the previous models (see Boris Begović, Boško Živković, and Boško Mijatović 2001). Instead of voluntary privatization based on employee ownership, the dominant method now was the sale of firms to interested buyers at public tenders and autions within clearly specified deadlines, with the aim of selling firms to strategic investors that were able to efficiently manage and restructure the firm. In practice, however, the set deadlines were not respected. There were substantial delays in the application of the law, so the government had to postpone the deadlines several times. Although several amendments were adopted in order to simplify the privatization procedure – in March 2003 and in June 2005 – at the time when the initial deadline for the completion of privatization had expired at the end of 2005, out of 2,400 enterprises that were earmarked for privatization, only 1,620 had been sold and consequently, many enterprises had remained in the portfolio of the Serbian Privatization Agency (see Uvalić 2010). Because of such delays, the date for the completion of privatization was moved to the end of 2008 and again to the end of 2009. Moreover, because of limited interest of potential buyers, shares were sometimes sold at high discounts, while there were also a number of cases of broken privatization contracts, primarily because of the lack of respect of contracted obligations on the part of the new owners. During the period from 2001 to mid-2017, as many as 30% of all privatization contracts had been broken (Božidar Cerović 2017). The expectations regarding the fast arrival of large amounts of foreign capital were not sufficiently realistic. The sectoral structure of foreign direct investment did not stimulate a quick restructuring of the Serbian economy, at least initially; during the first ten years a large part of investments was invested into the services sector (banks, retail and wholesale trade, telecommuniations, real estate) and much less into the manufacturing industry. Privatization ensured the necessary budgetary revenues, but not a quick transfer of property rights. Until fairy recently, there were still some enterprises in the portfolio of the Serbian Privatisation Agency that were enterprises in social property. After 30 years since the disintegration of SFR of Yugoslavia, social property has survived practically only in Serbia. The contribution of the private sector to GDP in Serbia remains relatively low compared to many other countries in Eastern Europe, around 65% according to recent estimates (Uvalić 2019).

The principal weakness of the privatization model adopted in Serbia in 2001 was its reliance on primarily one method – commercial sales to strategic investors. It was to be expected that foreign investors would not arrive immediately in large numbers, since the political risk in the country was still high, while the business environment was burdensome due to numerous bureaucratic obstacles. Moreover, some of the best firms were already privatized in the 1990s, leaving the less attractive enterprises to be privatized after 2001. The model also failed regarding the criteria of social justice, since it allowed the transfer of property to a relatively small number of new owners, in this way contributing to social differentiation and to increasing inequality. Instead of relying primarily on the method of sales, the Serbian authorities should have adopted a multi-track privatization strategy, based on a combination of different methods – as had been proposed five years earlier by the Working group of Governer Avramović.

5. Concluding Remarks

Avramović's departure from the political scene in mid-May 1996 had indirectly retarded the transition to market economy in FR Yugoslavia for a period of five years, since more radical economic reforms were implemented only in 2001. Had Avramović not been forced to leave politics, had his privatization program been adopted, had this been followed by other radical reforms of the economic system, including the liberalization of the foreign trade system and incentives for attracting foreign investors, Yugoslavia/Serbia could have saved at least five precious years of transition. These economic reforms could have been accompanied by the normalization of the country's relations with the IMF and other international financial institutions and the rescheduling and gradual repayment of its foreign debt, which could have opened the doors for the entry of fresh capital from abroad. The country's membership in the IMF could have led to the withdrawal of the "outer" wall of sanctions, in this way facilitating the arrival of additional capital of international financial institutions, Western countries and foreign companies. The improved general conditions would have undoubtedly brought better prospects for Yugoslavia's economic recovery, while economic progress could have possibly created a different political climate in Serbia, speeding up the process of democratization. Under such political conditions, the country could have resolved faster some key issues that had been on the agenda for long, also regarding property reforms. The new Constitution of the Republic of Serbia adopted in 2006, that finally abolished the equal treatment of all property forms that for decades protected the notion of social property, could have been adopted much earlier. A different political climate could also have stopped the NATO military intervention in FR Yugoslavia in 1999.

Instead of an improvement of the political and economic situation, however, new international sanctions were imposed on FR Yugoslavia in 1997, reinforced in 1998 due to the crisis in Kosovo. The unsuccessful outcome of the negotiations between FR Yugoslavia and representatives of the international community in Rambouillet led soon after to the 11-week bombing of FR Yugoslavia in 1999, that caused dramatic human, physical, environmental and economic losses, including the fall of Yugoslav GDP by some 19%.

The period after 1995, when the lifting of international sanctions was first announced, was an exceptionally important moment in the history of FR Yugoslavia, which unfortunately was not utilized in a proper way. Dragoslav Avramović had undertaken important initiatives aimed at radical changes of the economic (and political) system in FR Yugoslavia at that time, but ufortunately, he remained isolated in his efforts. With the departure of Avramović, what was sacrificed was the international credibility that Yugoslavia could have obtained immediately after the lifting of international sanctions. Those times were a missed opportunity for implementing a radical political and economic turnaround in FR Yugoslavia's and Serbia's transition path, that Dragoslav Avramović had fought for until his very last days.

Avramović's efforts were not futile, as they prepared the ground for future more radical transition-related reforms in FR Yugoslavia. He remained active on the Yugoslav political scene after he left the National Bank of Yugoslavia in May 1996. Although he never again had any official functions, he accepted to join the coalition "Together" ("Zajedno") led by the three main opposition parties – Zoran Đinđić's Democratic Party (DS), Vuk Drašković's Serbian Renewal Movement (SPO), and Vesna Pešić's Civic Alliance of Serbia (Građanski Savez Srbije), that organised joint rallies agains the Milošević regime in the second half of the 1990s (see Uvalić 2010, 2012). Avramović was also the representative of the political opposion in Yugoslavia at the first conference of the Stability Pact for Southeast Europe in Sarajavo in August 1999, to which FR Yugoslavia had not been officially invited since Milošević was still in power. For the conference in Sarajevo, an extensive program of radical economic reforms was prepared by a group of experts directed by Professor Pavle Petrović under the leadership of Avramović, that included three synthetic studies on future economic reforms in FR Yugoslavia (see Petrović et al. 2000).

In addition to his high international prestige and reputation, Avramović also had wide popular support in the country: he was admired and respected by ordinary people, even by pensioners, despite his refusal to print money to provide them with higher pensions. When Avramović died in April 2001, at his funeral in Belgrade an important part of Yugoslavia's history was also buried.

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