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Political Economy of Economic Policy - The Monetary Reconstruction Program (Serbia 1994) as a Case Study

Summary: The paper deals with initiation and destiny of the unique 1994 Program of combating the extreme Serbian hyperinflation. Despite the originality of the Program and decisiveness with which the related steps had been undertaken, the Program lasted not much more than half a year. It turned out to be unsustainable as it is collided with inefficient institutional framework where contracts and rule of law were not honored, and employees, in self-managed firms, decided on their own remuneration. We show that for lasting stabilization a far-reaching institutional reform was needed, and for implementing such reform an equally radical reform of the political system was necessary. However, there was not political will for these reforms, since they would oust the then political and economic elite from the power.

Keywords: Hyperinflation, Stabilization, Currency board, Credibility, Institutional deficiencies, Political constraints, Institutionally conditioned unsustainability.

JEL: E31, E63, E65.

Serbian hyperinflation at the beginning of the last decade of the past century was a major shakedown, an event with extraordinary ramifications for a long time to come and with recognizable consequences for an undetermined but certainly long future. It shook the entire social structure down to very foundations of the community and left deep imprints on the behavior patterns of all strata of social actors. Its impact has much to do with the Serbian economic past displaying a milder hyperinflation just a couple of years ago and a long history of inflationary episodes stretching practically over the entire period of Yugoslav socialist past. Collective memories of long drawn past inflation combined with unprecedented shock of the hyperinflation 1992-1994 has profoundly changed functioning of many significant segments of economic system. Among major such changes is an, as it seems, lasting impact on national savings which were practically annihilated and continued to hover at levels close to zero for decades following the termination of inflation. A conspicuous feature of development pattern is bypassing the potential sources of private national savings and the excessive orientation on the foreign direct investment (FDI) with development strategy relying exclusively on it and without clear understanding as to where exactly might such a strategy lead the country.

The monetary reconstruction program, designed by Dragoslav Avramović (1919-2001) was a spectacular change for the better in a truly dramatic and burdensome time. The results of the Program were met with unseen enthusiasm and its architect was for a couple of years following the implementation of the Program treated as a national savior, a person seemingly more popular than late President Milošević himself. A strong impression was created in the general, and partly even in the professional, public, as if hyperinflation should never and had it not been for the genial concept and strategy of the author of the Program, the great man Avramović. It is obviously due to the deficient economic sophistication that terminating hyperinflation was ascribed to Avramović along with some undeniably positive features of the stabilization concept.

Yet, it is clear that quite apart from the architect of the program, every inflation has to end and, moreover, that, as far as the *ending* of the inflation is concerned, hyperinflation takes care of itself. Hyperinflation eats the ground on which it develops and unfolds; once the currency is completely depreciate, there is nothing more to be gained by printing money, the rationale of inflation is obliterated and social strata benefiting from it plunge into nonexistence. Losing its social support excessive inflation becomes superfluous and ends completely in the resulting social void. In other words, once having destroyed the tissue in which it existed and having lost the social basis providing it with policy impulses, overdosed inflation must end, with such or some other architect or without any engineering wizard which would manage its termination. Yet, despite the fact that *terminating* exaggerated inflation is not conditioned by strategies of the architect of the stabilization program, the architects concepts and doings *do* matter: they affect a number of crucially important features of the ending of the exorbitant price rise, such as precise time of ending, cost of breaking the inflation, the time profile of approaching stability and distributional implications and effects of the stabilization process.

Before embarking on a more detailed analysis of the Program and the merciless destiny of both the Program and the author, it is apposite to consider a rather more general topic. It relates to the question of when and why one could evaluate the program as successful and give it the qualification of a significant breakthrough on the development path of an economy. Suppose the program is launched in an economy with deep structural weaknesses, with institutional mismatches which unavoidably and predictably, perhaps with some time lag, generate strong inflationary tendencies.

Such was the Serbian economy in which within the framework of the self-management system the employees autonomously and freely decided on their own income and which, on that sole account if not for other reasons, was permanently subject to insurmountable cost pressures necessarily leading to strong inflationary tendencies and to actual large and longstanding increases of the general price level. Suppose further such economy is hit with hyperinflation and a well-designed stabilization program cuts the inflation down to zero rate, but after some time (the said lag) inflation starts again and due to said weaknesses grows out into equally disastrous hyperinflation. The economy has been given a spell of comfortable stability, the growth and the living standard indicators have been improved, the economy functions incomparably better and people live decidedly better, but all that lasts for only a limited period of time and the same old horrifying story starts all over again.

True, an improvement in economic efficiency and standard of life is secured but only for a limited period. Could a program achieving such limited improvement be qualified as a policy success? There is no unequivocal answer to that question. The program designed and implemented by Avramović did produce undoubted and significant improvements, but only for a limited time. Because of these limited improvements one could call it success, but because it did not address structural weaknesses and led to the revival of high inflation one could with equal justification characterize it as failure. The only sure thing that could be concluded is that – provided it did away with structural deficiencies and thus secured a *lasting* stabilization – the newly reached state of the sustainable stability is an undeniable success. Exactly that problem arises in evaluation of the Avramović's program. It led to conspicuous and precious improvements but within a relatively short period – some 6 months – old symptoms of inflationary tendencies produced by unreformed institutions appeared and a noble attempt to produce a lasting stabilization failed due to the absence of political will to undergo far-fetched institutional reforms.

1. Roots of Hyperinflation and Challenges for Stabilization Programs

It seems convenient to begin this section with a statement which is newly and frequently, and indeed ever more frequently, a sort of my *ceterum censeo*: the basic and ultimate determinants of economic growth and of many processes constituting it are located outside of the economy itself and, with equally marked frequency, outside the processes under consideration. This "out sidedness" is double – institutional and structural. Institutional determination is sufficiently clear. The advance of an economy is determined not by hoe ever defined resource availability but by the motivation and information structure accounting for what is and how being done with the given resources, i.e. how they are being used. An additional influencing factor is decision making structure: who is authorized to make what decisions, which encompasses the degree of (de)centralization of the economy and the society at large. Empirical economics and economic history abound with examples of successfully thriving resource poor economies as well as those which are richly endowed but slow growing and displaying more and more poverty in relation to other countries and to the world economy as a whole. The structural determinants of economic growth are straightforward. There is an unimaginable cluster of highly differentiated tendencies in the world market and in the international relations regarding various non-economic factors which affect favorably or unfavorably any given economy. It is an ancient adage that for success in life generally, including propulsive economic growth, one needs *luck* in addition to a host of other favorable impacts and circumstances.

At the end of the last century, when transition from a collectivist to a market economy became the order of the day, Serbia had no luck both in the institutional and structural respect. Both misfortunes stem from a unique source which is the legacy of its collectivist past. Due to a set of circumstances prevailing in all socialist countries Serbia was able to achieve extremely fast economic growth for a limited period of time, a decade or so. The trouble with this exorbitant growth was the fact that it was not *sustainable*. The lack of sustainability came about in an untoward time when the notion of sustainability had not been discovered. All socialist countries were able to enjoy the spells of rapid but unsustainable growth. There are at least four deep structural factors causing *unsustainability* (Ljubomir Madžar 2019) but this is not the place where they could be elaborated. When the happy period of successful socialist development elapsed, the insurmountable difficulties arose in the process of transition to a market economy. The public turned out extremely disinclined to accept and support the transition to a market economy combined, of course, with a rich superstructure which the market implied.

For a workable market economy one needs much, much more than the set of exchange processes in the usual sense of the word. In particular, for stable and reasonably efficient market machinery an elaborate institutional superstructure is needed, and such superstructure can only be built if an equally delicate set of political preconditions are secured. Even politics have their broader social preconditions, a very general framework into which the political system itself is (to be) imbedded and the *framework* itself has to have a firm support in the broadest set of collective valuations political preferences and common memories – all in the spirit of German ordoliberals, such as, e.g. Wilhelm Roepke. None of these more concrete institutional or broader conditions were fulfilled nor could any trace of some at least partial fulfillment be anticipated. More immediate as well as more distant preconditions for the lasting success of the Avramović's program were thus clearly lacking.

People vividly remembered rapid economic advances during socialism and erroneously concluded that socialism is superior to – how ever one might like to define it – market economy predictably combined with some sort of liberal democracy in the political sphere. These are deep roots of political and social obstacles in modernizing economy and politically emancipating the society at large. The transition towards a market economy was disappointingly slow and the formidable sources of the cost push inflation, germane to the former collectivist economy, persisted long after the old system became formally abandoned and the old institutional set-up had been done away with. The economy entered a range of institutional vacuum having dismantled old regulating arrangements and failing to develop new ones. These are powerful sources of macroeconomic impediments obstructing all future stabilization endeavors and vastly contributing to the untoward epilogue of the Avramović's future stabilization program.

Structural exogenous factors of economic developments were equally unfavorable. The country fell apart and a significant portion of Serbian people found itself in the newly created independent states with profoundly changed, *always for the worse*, geopolitical position and grossly curtailed rights in comparison with the annihilated country SFRJ. The rumpled country found itself in a situation best described by Istvan Bibo (1996) who found a very appropriate term to describe the geopolitical situation of small stated and nations crowded in an extremely limited geographic space: *the misery of small nations*. Overly crowded on a cramped space the nations and ethnic entities are inevitably mixed and every state has significant minorities in almost all other states. The natural urge to protect own minorities located elsewhere generates intensive and lasting conflicts between and among the nation-states and hundreds of thousands of lost lives are a tragic price of the unenviable situation facing such nations. Nationalistic slogans of decidedness to protect the "imperiled brothers" becomes the order of the day. The hatred to other nations becomes the most attractive political program and nationalism prevails for good. Democracy is gone and all kinds of adventurism in international relations become not only possible but most likely. This is the general background against which Yugoslav tragedy took its bloody turn. The implications for both hyperinflation and corresponding stabilization programs are huge.

Due to the magnitude of the newly arisen problem, to the insurmountable political pressures to protect the Serbs outside newly created cut down "Yugoslavia" and to the inability of the political leadership to come to grips with formidable problems germane to the then prevailing division of territory and organization of the new states created headlong fast, the country found itself in an intense conflict with international community, including in particular the strongest part of it – the USA and the rest of the West. The severe economic sanctions ensued causing enormous damages and losses. It should be clearly noticed that the position of the economy had been literally unbearable because the markets in other ex-republics of the former Yugoslavia had been cut away in one single sweep and the international sanctions made it formally impossible to export anywhere abroad and actually made exports about 30% cheaper and imports some 30% more expensive.

Such a set of circumstances was almost unbearable, but on top of that came the surge of huge public expenditures. Serbia was involved in an expensive war led on the territory of the other republics, the flux of refugees had to be accommodated and supported and fighting units in neighboring countries had to be paid out of the meager and predictably declining fiscal revenues. Željko Bogetić, Diana Dragutinović, and Pavle Petrović (1994, 2022) provide revealing and shocking figures on the state of public finances of the then existing reduced Yugoslavia. The share of transfers to *krainas*, the parts of other republics populated by Serbs and involved in war, in 1991, 1992 and 1993 amounted to 3.2%, 20% and 12.7% of the then estimated *social product* and the share of the budget deficit in the same aggregate shoot up to 24% in 1992 and 32% in 1993. One should carefully notice that the said expenditures in relation to the *social product* had not only been exorbitant but also destructively vacillating (for a normal and regular share of public expenditures in the economy of Serbia cf. Fiskalni savet Republike Srbije - Fiscal Council of the Republic of Serbia 2018). It is easy to imagine how deadly such shocks had been for the economy ruined by the sanctions and, in particular, damaged by the denial of access to the international market. When speaking about the success and failure of the Avramović's program, one should not ignore just described historical background of the severely troubled (then!) Yugoslav economy which would reduce the prospects of success of an even most imaginatively designed stabilization program.

The above noted huge impediments to recreating the market economy and to provide for it reliable stability did not mean that none of the imaginable stabilization programs was feasible. Quite to the contrary the discouraging institutional and a boarder social configuration only meant that a *truly lasting* program was beyond the reach of its architect and political authority standing behind it. The programs with somewhat longer but still limited duration were not only possible but in a sense inevitable (Madžar 1994). In introduction it was pointed out that no hyperinflation has an unlimited life; all inflations have to end eventually. This clearly implies that countries with institutional disorder are, so to speak, doomed to creating series of programs none of which is lasting *as long as the inflation generating institutional mechanisms are **not** done away with.* The narrative is conventional and well known. Once overly accelerated, inflation deprives the market of its most precious function which is providing signals as to which options would profitably be chosen for the allocation of resources. The reason is clear: with exceedingly quick general price rise it becomes impossible to perceive the changes in relative prices and the ground for economic calculation is lost. Thus, the microeconomic part of the regulatory machinery of an economy is destroyed (cf. Daron Acemoglu and James A. Robinson 2014).

On the other hand, with destructively high rate of inflation monetary policy loses its power: no one is motivated to react on any moves in the ambit of monetary policy. With monetary policy thus extinguished other components of economic policy lose their functional capacity. This means that regulatory machinery is destroyed at its other, macroeconomic end. Olivera-Tanzi effect wipes out fiscal revenue that the government had been able to extract by inflationary financing. Manipulating money became worthless and futile. The situation ensues in which no one can benefit from further price increments. This is a set-up in which political preconditions for launching stabilization program are ripe. The conventionally defined costs of inflation (Gregory Mankiw 2010, pp. 102-109 and pp. 572-573) become not only unbearably high but also persistently rising, which is added on top of the above described two fundamental demises of the regulatory system of the given economy. Stabilization programs put an end to inflation but also give governments the opportunity to indulge into new episodes of excessive money generation. The cycles of inflationary upsurges and subsequent stabilizations extend into an indefinable future and repeat themselves up until the deep structural generators of inflationary impulses are eventually removed. Avramović's program was doomed to fail because it was not accompanied by structural reforms, which would do away with institutional generators of instability.

2. Structural Impediments to Lasting Stabilization

In accordance with above mentioned ordoliberal idea, structural factors determining the feasibility and shape of stabilization and ensuing eventual stability are seen to sort themselves out in several layers, two of which are of relevance in this context. The first layer encompasses institutional arrangements of the economy such as property rights, protection of contracts and analogous promises, judicial machinery for resolving the conflicts and the related procedural devices. The second layer consists of political institutions in the broader sense of the word – the type and organization of government, the degree of centralization of the public service, the assemblage and groupings of political parties, the degree of democracy *vs.* authoritarianism of the ruling governing machinery and participation of the populace in the process of managing various domains of social life.

Serbia has inherited socialist system of self-management with all burdens and complications germane to it. The principal systemic weakness was the absurdity of employees deciding on their own wages and salaries. The predictable outcome was that personal incomes steadily grew considerably faster than labor productivity – powerful impulses of cost inflation were built firmly into the very foundations of the system. The main results were steady and intensive inflation and so called *illiquidity*, the inability to honor contracts and pay the bills regularly. With employees deciding on their own incomes, the business losses became a conspicuous part of general economic landscape. Those with losses were quite naturally unable to pay their dues regularly, but illiquidity spread to profitable units, too, because illiquid had to become those who turned out unable to collect their outstanding debts. It seems that with such powerful cost-push impulses the price stability must permanently stay out of reach.

A theoretical implication of self-management is the well-known Word paradox of perverted reactions on the changes of the market parameters. Such is an increase in supply as a response to a decline in market price, and *vice versa*, and an increase in supply as a response to the increase in unit fixed costs. Such reactions are clearly inconsistent with economic stability and, among other, undoubtedly produce inflationary pressures. More serious was frequently discussed Furubotn-Pejovich paradox, which simply consists in the quite natural unwillingness of employees to form savings in their organizations: why should one renounce a part of achievable income if, after retirement or moving to be employed in another organization he cannot take any of that saving and have it as his own property. Without financial markets and the related institutions population was unable to place their savings into some kind securities.

With conventional sources of savings and their capital market allocation remaining out of existence and without requisite internal savings of self-managed firms, the only available practical source were banking credits. Development policy was steadily overdoing with that source which amounted to a powerful driver of inflation. With limited nominal interest rates and high inflation the real interest rates turned negative and very favorable for debtors, demand for credits soared and an avalanche of misplaced investments appeared as a consequence. No wonder, privatization of these erroneously created firms proved next to impossible and some of them became sold for one euro. Predictably again, the broader public did not understand that and perceived such and all other privatizations as unfair, as great plunder. All of these were unfavorable legacies for all future stabilizations, including the great Avramovic's program. That is structurally distorted economy is certainly a bad object for the stabilization exercises.

The heavy burden of socialist legacies is perhaps best seen through the comparative analysis of hyperinflation rates in the post-socialist development of the ex-socialist countries provided neatly by Bruno Schoenfelder (1998, pp. 175-176). He found out that hyperinflations had been developing in the majority of post-socialist states, but that the one with the highest rate of growth of the general price level had taken place in Serbia. He also presented concrete figures: the average annual value of the monthly price level reached 43.4% in Georgia in 1993 and 47.9% in Tadzhikistan, whereas the monthly rate of price inflation in Serbia in December 1993 reached the formidable 178,182%. To crown the hyperinflationary story, it is apposite to present the annual inflation rate in Serbia in 1992 of no less than 313,563.558% – the relative differences in the rates of inflation are enormous and they certainly reflect quite specific institutional framework which was more “inflation friendly” than the corresponding system in any other, either socialist country or market economy.

The idea of determination of consecutive social systems – economy being determined by the then existing institutions and the institutions being determined by the political arrangements – was introduced in the third paragraph of the Section 1. This is the context in which it can be spelt out somewhat more concretely. Along with the nominal self-managed arrangement in the economy, Serbia inherited an obvious authoritarian system of government in the political sphere. This system seemed much more difficult to dismantle in Serbia than in other socialist countries. Consequently, the general institutional framework proved to be rigid and nonadjustable. Political and social power proved to be highly concentrated. Schoenfelder (1998, p. 174) without hesitation and vacillation speaks about autocratic power of a married couple (the Milošević’s) and about hazardous arbitrary decisions taken hastily and without due deliberation. More importantly, the systemic correction of the decision making processed was lacking and the feedback from other power holders was absent. One could speak of a kind of mechanical law of unfolding of macro-managerial processes of governing the society: autocratic arrangement produces very specific patterns of decision chains which, being hazardous and embodying extremely limited quantities of expertise and information more frequently than not lead do catastrophic results. The political economy of highly centralized arrangements with exceedingly concentrated power gives precious insights into the ways of distorting both the decision processes and, in particular, resulting outcomes.

The political system – to revert to political economy of steering the society by a mighty autocratic dominating center – was formally democratic, with a multitude of parties competing somehow for powers and the authority to rule. However, the democracy was just a mask, a veil incompletely covering the underlying one-party arrangement. An important legacy of the demised socialist system was a very large public sector of the economy, a dense network of security agencies, the absence of separation of distinct branches of government, a mighty machinery of political propaganda and powerful devices of control over cultural public communication activities. All taken together, the enumerated power levers gave the ruling party enormous advantage over all other parties. A semblance of political competition there indeed was, but this competition was galactically far from the level playing field. The absence of the division of powers, especially the independence of the judiciary – the impotence of all of this having been effectively emphasized by Branko Horvat (1984, pp. 239-249), but his message did not reach the right spot or even found a deaf ear.

The party in command over the above-mentioned instruments of power found itself in the position of the overwhelming advantage and ruled freely in an absolutistic way. The only difference in relation with the former socialist authoritarianism consisted in the ability to form new parties without threat of legal persecution, but all that was of no avail. The ruling regime’s behavior is relatively easy to explain. The electoral body was imbued with collectivist ideas firmly connected with the memories of fast *but unsustainable* socialist development. The ruling regime exploited this ill-taken commitment to socialism and nurtured the hopes of regaining the splendor of old socialist rapid overall advance. Rather than educating the people by dispelling false beliefs and hopes of collectivist socialist paradise, the Socialist Party of Serbia exploited them recklessly and without scruples. The political configuration took on one of the most disadvantageous forms: the strong alliance of political directorate without scruples and ethical consideration, on one, and uninformed, uneducated and analytically incompetent *majority* of the electoral body, on the other hand (cf. Miroslav Mišković 2018). The heavy looser in this constellation is educated and informed minority. Politics determines the destiny of the country and the people, but not for the better, either now or in the foreseeable future. With the described general social background, the chances of implementing a permanently enduring and well functioning stabilization programs turned out and stayed meager indeed.

Now that structural constraints on definitive and durable stabilization are laid out, the delicate question on the success of the Program can be discussed. The first take on this question can be relatively easy and negative. No program related to the mode of functioning of the entire economy is ever conceived to be short lived or even to have an impact of limited duration. Stabilization programs are conceived to stabilize the economy permanently, so to speak forever. The program under discussion is crafted on an institutional-structural base which predictably was bound to generate powerful inflationary pressures, strong enough to incite inflation again and even to enflame it once more into all-encompassing hyperinflation. As structural reforms were *not* undertaken as a precondition for stabilization, it could have been predicted that the Program will fail. And it failed, indeed.

However, the question of success can be raised on a more relativized and nuanced basis. Assuming that structural reforms had been unfeasible on the Political Economy grounds, one could envisage a set of alternative programs, all of a limited duration, and attempt to rank them by criteria of efficiency. Two such criteria impose themselves instantaneously: duration of the stabilization spell and the degree of revival of the output and associated aggregates. This opens a wide door for all kinds of speculations none of which could be reliably substantiated. Among other things, one would have to come up with some sort of a rate of substitution between the length of stabilization conditioned by the program, having solved the problem of measuring the length, and the degree of the revival of the economy, which also would have to be somehow solved. Having all this in mind but cutting the story short, one might venture to speculate that this Program was successful if viewed on the set of programs implemented without otherwise essential structural transformations. In other words, in the set of programs doomed to be of limited duration Avramović's Program was successful: stabilization was achieved instantaneously, the revival of the economy was impressive and its results were beneficial as long as the Program worked and lived.

3. Structural Turnaround vs. Stabilization: The Long- and the Short-Run

A delicate interdependence between the structural reforms and the stabilization exercise turned out to have far-reaching implications and proved to be a serious constraint on any stabilization program. As it turned out, these implications were of an extraordinary significance deriving from political economy considerations. The complication resulting from this interdependence is determined by the widely differing time dimensions of the stabilization policy and the structural reforms, which were understood as an unavoidable condition for the ultimate success of any stabilization effort. Namely, the institutional changes, which are at the kernel of the structural adjustments, are action requiring a lot of time. The conception itself of the structural shift was, to begin with, extremely time demanding. One should not forget that exit out of the socialist order was an unprecedented policy move, without experience which could have been drawn on and used as some kind of a road mat. Expensive and time-consuming experimenting with various options was inevitable and before the next option was eventually adopted, the previous one had to be given the chance to show its drawbacks and potential virtues. The multitude of privatization laws vividly testifies to the multi-option approach and to the difficulties of bumping into the right variant, which would eventually work. Sifting through the available literature could not have been of much help because the specific and unique issues of transiting from one institutional order to a very different one have not been properly dealt with in the literature. The *Transition Economics* as a new discipline was only in the making and economic realities required immediate action. Due to the lack of knowledge, such action was not forthcoming and the institutional requirements for a lasting stabilization could not have been met for a long time.

The system of self-management imposed much harder requirements in the transition process, too. The uniqueness of the system implied the uniqueness of the transition from it, too. The solutions conceived and tried out in the "standard" ex-socialist countries could not have been of much use. Particular difficulties arose around the issue of so-called *social property*. The Yugoslav constitution defined it in a famous article in the strictly negative way: it enumerated a long range of actors and institutions to which the assets in social property *did not belong.* A crying void was left when it came to the question as to who could play the role of the owner and, at last, who would collect the proceeds when and if some "socially owned assets" are sold. These conceptual issues and clarification of the matters of principle took a long time, the time not needed in the privatization undertakings in all other countries exiting the socialist order.

There has been a multitude of ways of distributing the proceeds of privatization. The frequently emphasized candidates were the employees of the privatized firms, the local communities in which the firms were locate, the broader administrative units to which such local communities belonged, the republics in which the firms were located and under whose authority they operated. The political economy aspects of this complicated issue are evident. Behind each proposal of how to divide proceeds there had been clearly articulated partial interests. The interaction among these partial interests was strong, prolonged and costly. Equally important, they delayed the privatization and deprived the economy of a consistent and stable institutional base on which it could be permanently stabilized.

Very complicated, much more so than in other ex-socialist countries, was the question of the conditions under which the "socially owned" assets could and would be sold. All firms to be privatized had a turbulent past. The history of self-management left deed imprints on their financial positions: employees had not been motivated to sacrifice their incomes in order to support the firms' expansion, the absence of capital markets deprived them of the conventional manners of accumulating capital, steady inflations eroded whatever meager money holdings they might have formed and other conceivable sources of capital, except banking credits, were out of reach. With scarce financial resources created during "normal times" in the self-management era, they entered the turbulent last decade of the XX century when the destructive shock of the sanctions hit them all. The breakup of the country deprived the Serbian firms of the markets in other ex-Yugoslav republics and of any legally accessible export markets. Revenues predictably plummeted and the prohibition of layouts made it impossible to fire the employees and to reduce the costs, at least to the extent of the possible. With drastically reduced revenues and with administrative ban on the cost adjustment the firms unavoidably started to accumulate losses and to lose capital. On the top of all that came the NATO bombing. To cut the story short, the firms entered the XXI century drastically and sadly decapitalized.

What might have been their value in the repeated wave of privatization, around the turn of the century? Vast majority of firms were not only worthless but were burdened with large amounts of *negative capital*. Majority of firms were operating with unseen and unheard-of reductions of total revenue while, as noted above, being unable to adjust the costs by appropriately downsizing the number of employees. What else could have happened with such combinations of incoming and outgoing money flows? This is where many observers and, in particular, broader public formed a tragically false perception of the conditions and the results of privatization. People remembered the modest yet positive profitability of the multitude of firms and established the conviction of their positive, here and there significant value, but all of sudden they became to be sold at – *for them* – absurdly low prices (e.g., some sugar factories in Vojvodina were sold for a symbolic price of a couple of Euros. Public perception was misguided and fatal).

Massive complaints about the "plunder" of social wealth and about the "first, most primitive stage of capital accumulation" resounded all over public scene, massively in media and various public statements with significant reach and considerable impact. No wonder a powerful resistance developed along all walks of social life decelerating, stopping and, most importantly delaying privatization as a form of institutional change. Calls to reason proved futile. On several occasions, I tried to explain that a firm is not the collection of buildings, machinery and associated instruments: a form is what one can read from its balance sheet, the difference between estimated value of its assets with added accounts receivable and its credits and other obligations including accounts payable. Thus, a major political economy constraint on institutional restructuring stemmed from the ignorance and, particularly, the lack of understanding of the elementary notions of business economics.

Abstracting from all of this, there was an objectively determined constraint on the velocity of privatization deriving from the logically inevitable conflict between the speed with which the "socially owned" assets were to be sold and the price obtainable in these transactions. It is clear and evident that the more quickly one endeavors to sell anything, the lower the price obtainable through the transaction. If one is keen on obtaining a favorable price, one is obliged to devote more time to the transaction and search for the most interested buyers. The two intentions were necessarily incompatible but the public wanted to have both amply satisfied. Working and all other people turned out as the objective enemies of privatization and as almost insurmountable constraints on the institutional adjustment of the society.

The reasoning developed above leads to a far-reaching conclusion, which could be termed as a form of *impossibility theorem*. A destabilized economy can permanently and sustainably be stabilized only if it is institutionally ordered. This order means in particular the absence of the perverted mechanisms, which generate strong inflationary impulses on a permanent basis. The economy of Serbia was not freed of such ultimately destructive mechanisms. Quite to the contrary, such mechanisms were entirely inherited form the formally demised self-management system. With such mechanisms, which take a prohibitively long time to overhaul, lasting stabilization is unfeasible and only short-lived stabilization programs could be launched. Such programs are unsuccessful if their permanence is a part of the definition of successfulness. Avramović jumped into a society with discouraging institutional disorder and initiated stabilization program on such a disarrayed basis. That program was bound to fail, which it did. It was akin to the attempt to build a heavy building on a shaky, obviously unstable ground.

The only way of implementing a sustainable program was to restructure the economy, and perhaps the society as a whole, and only then start the stabilization exercise. However, such postponement of stabilization is unacceptable, stabilization cannot wait, and it is, so to speak, needed immediately. *The impossibility theorem* reads: the kind of stabilization that is needed, i.e. implementable within reasonable and needed time span, is impossible because the economy cannot be institutionally ordered within such a short period; feasible are only stabilization attempts which are short-lived and doomed to fail within a short period of time. Exactly this happened to the Avramović's program. One could safely state, true, with some benefit of hindsight, that it could not have succeeded within expected and planned time horizon: the structural preconditions were not in place and could not have been secured within the required and expected time frame.

The unavoidable end of hyperinflation was postulated at the very beginning of this paper. Now, the underlying mechanisms of its termination can be spelt out. In fact, there are two interdependent processes, one economic-structural and the other political-economic, working in parallel on its ending. On the structural level, the inflationary depreciation of currency makes it ever more difficult and ever more costly to extract inflationary tax from various victims of the accelerating price rise – more and more monetary units have to be "printed" per unit of the inflationary tax. On the political-economic level the Tanzi-Olivera effect, after the inflation rate has reached the critical level, reduces the gains from the exuberant price rise. Eventually the number of gainers from inflation begins to fall and even the entire groups of gainers start falling out of the collectivity of those who drew benefits from inflation. The political and social support for excessive monetary expansion necessarily falls and the doomsday of inflation comes on that account, too.

4. Further Observations on Politico-Economic Aspects of Hyperinflation and Its Ending

The most general question that can be asked about political economy of hyperinflation is one related to the question of the conditions under which the interest group supporting and perhaps advocating hyperinflation can encompass the entire society. At first sight, that could sound as an outer, evident impossibility, but further examination could lead to a different conclusion. Dense concentration of a large number of nations and ethnic groups naturally generates strong nationalistic feelings and even an aggressive stance to other groups in the area, particularly the neighbors. As noted in the Section 1, congestion and compactness of various ethnicities on a circumscribed area implies significant minorities in each of the enclosed countries. The existence of minorities generates the natural protective impulses on the part of the home nations and this almost inevitably leads to interventions of any country into other countries' affairs. The drive of liberation of the "brothers and sisters" located elsewhere has historically been the source of many wars and bloody occupations of territories belonging to others. All this created the intense century long aspirations for alien territories and unbridled feelings of nationalism. Nationalistic drive usually generates enormous political support for parties launching the programs of "national liberation and reunification". On such programs, elections are repeatedly won and social scientists and patriotic historians win easy popularity and gain the trust of the populace.

This adds up to the political climate in which the electoral body is ready to pay any price for unification of scattered parts of "ours" located in other states. Exactly such situation came into being following the break-up of Yugoslavia with Serbs scattered all over that past country. It appeared that practically all citizens of Serbia formed a coalition behind the government determined to "liberate and unify our people". Ready financial means to finance the war were not available and inflationary financing appeared as the only option. The governor of the central bank Borislav Atanacković is remembered for his statement that the Bank is ready to print any amount of money to make it possible to implement the current policy program of early nineties of the past century. To summarize, the cost of hyperinflation is exorbitant and literally perilous, but in extraordinary situation of several wars bursting into flames and the prospects of annexing territories with Serbian minorities, very high price, including devastation caused by hyperinflation, seemed acceptable for achieving that epochal "noble goal".

Thus, it is not only logically possible but also empirically demonstrated that, from a political economy viewpoint, hyperinflation may be the result of a conscious and, conditionally speaking, rational and intentional choice. The destructive hyperinflation with which Avramović decided to come to grips seems to have been the result of such a choice and certainly made the challenge of its termination so much the more difficult. As is well known this venture met an untoward, some would say tragic end. The key reason for such a regrettable outcome was an inaccurate prediction of the reaction of the international community to the armed attempts to realize what some took for epochal, crucially important national objectives. A lesson might have been drawn from all of this. Small nations and weak countries should never ignore the dense web of interests of great powers, which cover the entire contested territory, better to speak the entire globe (cf. Zbignjev Bžežinski 2001; Noam Čomski 2016). The right strategy of the small and weak states is to recognize these interests and to accept them as constraints on their own – whatever shape they might take – strategies of fight for national interests. Failing that, a very disenchanting epilogue results from the struggle, whereas the corresponding outcome turns out markedly less favorable than the one that would have been obtained at without fight, i.e. by accepting the said interests of the more powerful agents as constraints to the relevant national policy actions. The political economy lesson is that the number of players to be reckoned with is larger than seen at the first sight.

Programs of limited duration are themselves the sources of instability. They may be viewed as more favorable than continuation of hyperinflation or its spontaneous ending. However, they may sometimes be proved as inferior to some alternative programs based on a different conception of given economic realities. But this opens the door for endless speculative discussions which cannot produce firm conclusions and reliable results. Namely, markedly short-lived programs end, as a rule, with administrative interventions for which there is no assurance that they would improve the macroeconomic picture, especially not in a somewhat longer run. Administrative intervention is treacherous because it is based on the unwarranted presumption that it is somehow always well placed. This seems to be justification for intervening into market outcomes and distorting them significantly. However, it is executed through the interaction of a multitude of players and in that respect is similar to the market, except that the interaction is raised to a higher level of social hierarchy and performed by bigger players. As such, it displays the same failures as the market – externalities and spillovers, indivisibilities of some policy components, informational asymmetries and adverse selection – but in all likelihood to a much higher degree (Joachim Ahrens 2002, pp. 117-178).

An important political economy issue is organization of the political system of the country. Due to tremendous advantages of the ruling party derived from the command over large state resources, on one hand, and the security and other agencies of legitimized coercion, on the other, political competition, as noted Section 2, was far from level playing field. The government was captured, the electoral body subordinated and institutions neutralized; the power holders ruled without any effective constraints. Avramović threw himself into the jaw of an untamed political beast. Not even the independence of the central bank was stipulated as a part of the conditions of implementation of the program. Not only this basic law had been drastically ignored and bypassed, but also the program itself turned illegal, decided by the assembly of the Republic of Serbia while such decisions had been under exclusive authority of the federal government (Avramović 2007, p. 45).

Avramović ended his great venture in an inglorious way: having started Program II designed to undertake the structural reforms, he hit against the wall of political obstacles and, after a dramatic two-day inimical discussion in the National Assembly, he was mercilessly dismissed despite the popularity he earned thanks to his – at list for a limited period – successful and popular stabilization exercise. One of the reasons Avramović agreed to involve himself in the cooperation with the then existing authoritarian and coercive ruling directorate was the fact that he spent almost all of his working life abroad and did not experience the arbitrary and forcible government at point-blank distance. Otherwise he would probably have rejected the idea of cooperation with the then ruling authorities. There is a telling Serbian proverb: *Whoever plants bumpkins with a devil gets them ultimately hit against his head*. It is regretful that such a scientific greatness and professional authority met such a disrespectable end.

5. Concluding Remarks

Despite the unsought, utterly disappointing epilogue, the Avramović's stabilization program of 1994 was a creative economic policy achievement and an interesting exercise in the theory of stabilization. A devastating hyperinflation, the second largest in the world economic history, was broken suddenly and effectively. Avramović won tremendous popularity and for some time was hailed as a national savior. The short-run success of the Program was largely due to an original approach of offering the economy an entirely new currency, having nothing to do with the old discredited Dinar and based on the full convertibility of the new currency against the Deutsche Mark, admirably stable and most esteemed currency at the time. The thinking behind the Program was straightforward and clear. The rehabilitation of the compromised Dinar would be lengthy and costly in terms of unemployment and lost output. At the same time, the economy was practically deprived of money and Avramović understood that providing it with any non-compromised currency would revive the economy and give significant advances in terms of all major economic aggregates. The credibility was also seen as a major precondition of the success of stabilization and it was acquired by unfailing and consistent maintaining convertibility.

Yet, the Program met with an undesired and vastly unexpected end. The main point of this paper is that the failure of the Program was inevitable. The institutional base on which the Program leaned was highly problematic: burdened with far-reaching perilous failures including the segments of the system, which predictably, continually and intensely generated overwhelming inflationary pressures. The lasting stabilization was possible only after these destructive institutional drawbacks had been eliminated. This fundamental precondition was not fulfilled and the old inflationary evils reappeared with an alarming pace and strength. The launching of Program II, some year and a half following the launching of Program I could be viewed as a living proof that Program I did not fulfill its objectives. Avramović himself met a horrifying termination of his great mission. He was dismissed after a cruel two-day session of the National Assembly whereby one knowledgeable person fought a hopeless battle against an ignorant majority. As could have been predicted on the basis of an abundant experience he lost. One might add that he joined the large crew of those who historically have been on the right side but lost against the uninformed majority.

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