

The Political Economy Background of Yugoslav Dissolution

By

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Introduction

Standard explanation of the courses that destroyed Yugoslavia in the bloody war circumstances from 1991-1995, emphasized ancient ethnic hatreds as the basic origin of breaking-up the country. The notions like “ethnic nationalism” or “ethno-nationalism” (Connor 1994) became the principal way for understanding Yugoslav dissolution (Ivekovic 2000; Bianchini and Schopflin 1998). The easy acceptable story about traditional nationalisms, originated from the Second World War appeared as the most appropriate starting point for making explanation why Yugoslavia, once stable and relatively prosperous socialist federation, was by the begin of 1990s dismemberment in many ethnically-based pieces. The question was particularly interesting due to the fact that for decades, Yugoslavia played a role of prominent socialist country, with relative political stability and seemingly good economic performances.¹ Yugoslav semi-market system, based on self-management of workers, have been attracting attention of many social scholars trying to find the “third way” between the capitalism and state socialism. Furthermore, since 1970-es Yugoslavia concluded special agreement with European Economic Community enabling to their companies relatively free access to the common European market.

All these things disappeared for a less than one year. From June 1991 to May 1992 practically all institutions that have been developed for almost half of one century had been swept away. After the declaration of independence by Croatia and Slovenia in June 1991, Yugoslav federal army (JNA) attacked Slovenia. After a so-called “Ten days war”, JNA withdrew from Slovenia and then pushed to Croatia. After severe fighting, JNA and rebelled Serbs from Croatia occupied one third of Croatian territory. Little after, by April 1992 JNA supported Bosnian Serbs against Bosnian Muslims and Croats, helping them to occupy roughly two third of the Bosnian territory. In the spring and summer of 1992, during the heaviest fighting, many horrible atrocities made in Bosnia and Herzegovina,

¹ Leading Yugoslavian economist for that time, Slovene from Ljubljana, Alexander Bajt, showed in his important analysis from mid 1980s that the performances of Yugoslav semi-market system were weaker than those performed in comparable Western and South European countries. Comparing efficiency of investments between Yugoslavia and countries like Portugal, Spain, Ireland, Greece and Turkey, he concluded that Yugoslav system showed the worst level of efficiency. (Bajt 1985)

mostly by Bosnian Serbs, but it followed by war crimes in the conflicts between Croats and Muslims. The wars was practically finished by the summer and early fall of 1995, when Croatian forces put control over the whole country's territory and when allied Muslim and Croatian forces liberated a substantial part of Bosnia and Herzegovina, previously occupied by Bosnian Serbs. The peace agreement achieved in Dayton marked the end of the whole process. Over 100 thousands of persons were killed, mostly in Bosnia and Herzegovina, and over 2.5 million replaced from their own homes.

During the above mentioned circumstances the Yugoslav federal system gradually collapsed. Serbia and its allies captured control over the Federal presidency and government by October 3rd 2001. The president of Yugoslav presidency was in that period Croat Stipe Mesic (currently the president of Croatia) and the federal prime minister was also Croat Ante Markovic. By the end of 1991 both of them resigned from their political positions. In January 1992 Slovenia and Croatia was confirmed by European Union's countries as the independent states, that was followed by other European and world-wide countries. On April 27th 1992 Serbia and Montenegro declared the establishment of new Federal Republic of Yugoslavia. On September 22nd the United Nations refused to recognize new Yugoslavia as a legal successor of the former state.

For the less of one year Yugoslavia passed the full circle, from the country faced with constitutional reform² to the severe war in which thousands of persons lost their lives, being wounded or leaved without any property. What was the reason that caused such course of action? We are not interesting in describing political events that took place in the South Slavs state that "twice being a country" (Lampe, 2000), from 1918-1941 and 1945-1992. That is mainly subject which have occupied political historians, but the paper is stemming from political science approach, attending to one type of institutional analysis. If we follow highly appropriate DECIDER framework (McGinnis 2003), the methodological point of departure from which will be cast the light on forces that break

² The constitutional reform started when federal government under the leadership of Ante Markovic put in the power. Gradual abolishment of socialist market system started by the end of 1988, enabling for the first time after the 1945 economic freedoms, introduction of capital markets and other economic institutions associated with th enotion of capitalism.

up Yugoslavia as a country could be labeled with the letter “E”, as a approach based on *evolution of institutional systems*. The best methodology that might be developed for such an approach could be the one type of sociological institutionalism, bolstered with elementary findings of political economy. Using dominantly qualitative methods, with just basic statistical background we are going to develop the basic hypothesis that Yugoslavia was break down predominantly by the failure of federal institutions to cope with *the bankruptcy of socialism*, expressed by the notion of *socialist unemployment* coined by the American political scientist Susan Woodward (Woodward 1995a). The thesis is quite simple, but mostly overlooked by political and other social scientists, which favored the analysis which stressed ethnic nationalism, the old antagonisms, tribal hatreds, as the only possible explanation for events that were marked with brutal killings, war crimes and all kinds of atrocities. How reluctance to share the costs of socialist bankruptcy with other national communities became the key force of dissolution, what kind of institutional arrangements it taken and what was the final outcome is going to be a basic topic of the paper.

Single Yugoslav Market Prior to Dissolution

In the years that preceded break-down of Yugoslav socialist federation, a brisk polemics among political economists, as well as politicians, about so-called “economic disintegration” was one of the prominent topics. Simply speaking, the scholars from the less-developed, eastern parts of the country, regularly have been arguing that “asymmetrical system of federalism”, established by president Tito in mid 1970-es, caused one type of economic disintegration, showed by diminishing figures in inter-republic trade and capital flows. Such type of statement was a relatively common, advocated also by general public, journalists, manager elite, but as it mentioned above, mostly in the eastern part of country – Serbia, Montenegro, Macedonia and in a smaller degree in Bosnia and Herzegovina. In the background of such statements were requirements for further fiscal centralization and generally strengthening of federal power in economic matters. From the standpoint of development of fiscal state in liberal democracies it might appeared to be a legitimate requirement, that happened for example

in the United States after the Great depression in 1929-1933. But in former Yugoslavia it was, it will be seen later, un-operable requirement.

Empirical studies performed by the end of 1980-es showed no disintegrative trends in trade and capital flow among federal units (Petak 1989). Considerations that have been stressing out the appearance of closed republic economies (called as a “national economies”), were showed as a “stylized fact”, without any empirical foundation. Moreover, the thing that was unquestionable, directly contrary to the above mentioned claims, was strong reliance of business companies on internal market linkages. Data in **table 1** shows that inter-republic trade, expressed by the volume of goods and services transactions, was the more important factor than export and import, respectively. Reliance on internal market was a pretty higher in less developed federal units, than e.g. in most developed Slovenia, or in Croatia, that was valued as a second most developed federal unit.

Presented data shows, however, that transactions made within the Yugoslav single market were extremely important as a factor that contributed to GDP, ranging, when we include both sales and purchasing side of economic transactions, from 31.1 per cent in Slovenia to 51.9 per cent in Montenegro. The only thing that was evident on the basis of such a data was sharp difference in federal economies to export to the external markets, mainly to EEC countries (Germany and Italy as prominent destinations).

Socialist unemployment

The appearance of unemployment in the former Yugoslavia was thing that constantly existed, but in 1960s and 1970s it did not become a destructive element for the economic system. But since 1980, by the dead of charismatic communist leader, president Tito, the unemployment started to take disruptive political effects, exacerbated by the drastic imbalances in the level of economic development between Yugoslav federal units and showing extreme variations in its volume (see **table 2**). As Slovenian economic historian Neven Borak figuratively described:

“Yugoslavia was at the level of Turkey in terms of per capita gross domestic product at purchasing power parity in 1985. Kosovo, the less-developed part of Yugoslavia, was at the

level of Pakistan. The most developed part, Slovenia, was compared with Spain and New Zealand. Vojvodina and Croatia approached Greece and Portugal. Bosnia-Herzegovina and Macedonia were compared with Thailand and Mexico, and Serbia with Turkey.” (Borak 2000: 312-313)

The unemployment rate in particular federal units followed sharp differences in respective levels of economic development. The unemployment rate in the most developed Slovenia was 3.2 percent, while in the same time Kosovo’s rate was 38.4 percent. Sharp differences in unemployment rates led Susan Woodward to the conclusion that straight in that economic category should be find a crucial reason for the explanation of Yugoslav dissolution:

“As with the capitalist system it aimed to replace, the underlying contradictions of the Yugoslav reform-communist system and its main lines of sociopolitical conflict cannot be understood apart from unemployment and the particular manifestation of its treat. This book doe not argue that socialist unemployment played the same economic or political role as does capitalist unemployment. But its causes and characteristics do reveal the primary mechanisms and dynamic by which socialist Yugoslavia functioned – and declined.” (Woodward 1995a: 367)

By begin of 1980s Yugoslavian economy started to face with severe internal and external conditions. IMF claimed from the federal government to accommodate to the fact of extreme external debt, by reducing the costs of labor and diminishing public consumption. The government attempted to solve problems using economic instruments that were successful in previous time, e.g. during the economic crisis appeared in 1950s or 1960s. As Woodward also pointing out, there was no political leadership that would be able to enforce the policy of economic stabilization. Tito was dead and no one succeeded in getting even the approximate political legitimacy.

As a response to severe economic crisis the new institutional arrangements has been starting to develop. We are going to label them with the notion of “economic nationalism” as a distinctive category from the more commonly used term of “ethnic nationalism”. As economic nationalism in the former Yugoslavia case could be labeled all institutional arrangements developed at the federal units level (6 republics and 2 autonomous provinces, Kosovo and Vojvodina, as a part of Serbia) to cope with the growing problem of socialist unemployment. Woodward called them as “The Slovene

model” and “The Foca model” (Woodward 1995a: 264-65).³ First one relied heavily on market competition and world-market standards in productivity, and could be valued as a liberal approach to economic development. The latter oriented mostly to socialization of productions costs, strong inclusion of political superstructures in the process of production, and could be called as a state approach to economic development.

By the end of 1970s Yugoslav self-management system starting to loose its ability to provide the acceptable level of employment. The unemployment rate grew up to little less than 14 per cent, from the average rate between 6 and 9 per cent that in 1960s and at the begin of 1970s. Unemployment now affected not unskilled workers coming from non-urban areas than the basic beneficiary of socialism – industrial workers and the children of publicly financed administration, mostly with university diplomas.

Due to evading role of federal communist party in providing employment possibilities the completely new institutional arrangements were built up at the republic levels, particularly in northwestern federal units – Slovenia and Croatia. The new institutional structures include highly various actors at the level of republics: officials in executive bodies, parliamentary members, economic chambers members and in the Slovenian case even the members of various non-governmental organizations.

Furthermore, Yugoslav federal communist party lost its international position, due to changes that starting to appear in the former Soviet Union, after Gorbachev took the power. In the same time, new possibilities for direct economic connections appeared for north-western federal units. Woodward pointing out the crucial moment in her book:

“While the decline of the federal party’s international bargaining position gave the republican parties illusion of more freedom to go their own way, that freedom would also depend on international leverage.

³ The term Foca is taken from the name of one small city located in Eastern Bosnia, which symbolized for a decades, the prominent place for communist ideology of “brotherhood and unity”. The irony of history was that exactly in that mountain town some of the severest war crime atrocities were made by Serbian forces, that in just one day conquered the whole region.

It was not the republics in the south with unemployment of 20 percent or more that took political lead, but Slovenia – with full employment, labor shortages in industry, and only recent threats to living standards. Full employment in Slovenia meant that the costs of liberalization and technological modernization were much lower...

Although an export-oriented, marketizing reform government objected strongly to its loss of rights to retain these revenues in Slovenia implied by the new requirements for depositing foreign exchange with the National Bank. Without that foreign exchange, Slovenia's program to raise workers productivity back to European standards and to resolve labor shortages to industry with imports of more-advanced equipments and technology was in danger. In view of declining standards of living in the republic and wage competition with foreign countries for professional labor, its enterprises began to campaign against the rules on redistribution of a portion of market earnings from 'above-average' to 'below-average' firms and localities to replenish solidarity funds for guaranteed wages and the federal fund for credits to less-developed republics. In their view, this redistribution was weakening the incentives to higher productivity in Slovene firms. Objecting to federal taxation on similar grounds – that resources were being wasted on the less efficient or unproductive – the republican government began to protest against the visible beneficiaries of the federal budget: the federal army, the less-developed republics, and the federal administration." (Woodward 1995a: 355-56)

Introduction of economic freedoms, and full application of "The Slovene model" required abandonment of socialist federal institutions and formation of its own institutional arrangements for coping with the crucial problem – the bankruptcy of socialism, expressed in growing unemployment. The new institutional arrangements could be labeled as "economic nationalism". Within the Slovene model that term was meant the introduction of economics liberalism, orientation to world market and efforts to raise productivity to be more closer to the European standards. Due to the fact that socialist Yugoslavia was built on two contradictory principles – socialism and federalism, where first required centralization and authoritarian political structures, while the second presupposes autonomy and liberality, abandoning socialism did not mean that in the same time federalism was affirmed. (Gligorov 1990). Socialism left bankrupt economy and the institutional arrangements evolved out as a respond to that problem were not connected with the affirmation of federalism. Contrary, they were connected with economic nationalism, because constituent nations were reluctant to bear the other nation's costs of socialist bankruptcy.

Federal army and federal budget

Lack of fiscal resources for covering the costs of growing employment was even reinforced by requirements came from international creditors, IMF, World Bank, EEC, to diminish taxes on goods in order to open Yugoslav single market for international competition. While republic governments in the same time decreased taxes on firms profits, due to efforts to stimulate investments and raise productivity, the fiscal crisis of the federal state became the basic outcome of economic reforms. Yugoslav federal army (JNA) transformed itself into a key defender of the so-called “The Foca model”. Faced with insufficient financial capacities caused with economic reforms and changed international environment it did not transformed itself, by reducing enormous costs for personal and equipment. Moreover, JNA continued to spend lions amount of public money on new weapons, in accordance with its own strategy that after dissolution of Warsaw pact, the threat from NATO still continue to exist. The paradox of Yugoslav case was in effect that main political conflict broke out between federal army, as a defender of socialism, at the one side, and north-western republics as a promoters of economic freedoms, at the other side.

Unilateral introduction of federal taxes for direct financing of federal army expenditure showed as a first step in approaching to brutal war conflict. The costs dedicated to fund JNA (see **table 3**) accounted for 48 percent surpassing largely the expenditures for financing economic development in less-developed areas, agricultural subsidies and covering the costs of structural reforms and social programs. JNA continued to play role as in socialist time, becoming the main proponent of the “Foca model”. In the same time, Serbian president Milošević finished political purges in republic and provinces administration, putting under his own control the police forces, and particularly the secret police. By begin of 1990 alliance for defending the institutional arrangements of “The Foca model” was established. At one side in the upcoming conflict were Slovenia and Croatia, proponents of “The Slovene model” and at the other were JNA, Serbia and Montenegro, proponents of “The Foca model”. Bosnia and Herzegovina, as well Macedonia, were located between the two poles. The only thing for which it should be waiting for was a motive to start with military conflict. It was found in Declarations of independence proclaimed by Slovenian and

Croatian parliaments in June 1991. One day after JNA attacked Slovenia. It was the begin of bloody circumstances in the former Yugoslavia.

Economic costs of dissolution

The economic consequences of Yugoslav dissolution were tremendous. Once, the most prosperous socialist country returned in basic macroeconomic parameters twenty years, in some regions even thirty years ago. Detailed analysis showed that the Balkan became area of severe economic decline and poverty (Zarkovic-Bookman, 1994). The level of GDP in particular countries sloped down for more than 50 per cent. Data in **table 4** show the raise in unemployment figures for particular countries

Out of Slovenia no one other country originated from former Yugoslavia has been even close to the level of GDP achieved in 1990. By the mid 1990s Slovenia succeeded in covering the cost of losing substantial part of Yugoslav market, by strong orientation of export towards Germany and other EU countries (Gligorov and Vidovic 1998). In contrast to situation in ex-Yugoslav countries, during the last four years (1999-2002) all central-European transition countries, like Hungary, Czech Republic, Slovak Republic, Poland, succeeded in crossing the level of real GDP they had before the process of transition started. Unlike them, Bosnia and Herzegovina, Croatia, Macedonia and Serbia and Montenegro below its pre-transitional level.

Epilouge

It is historical irony that basic elements of economic proposal, advocated by proponents of “The Slovene model” became, at the begin of 21st century, basis for economic cooperation in the South-East Europe region, proposed by the European Union. The above mentioned model was based on establishing confederal agreement between Yugoslav republics, preserving common market institutions, enabling free flow of goods, services and capital. Confederal proposal envisage also the establishment of common agricultural policy, infrastructural policy, environmental and the establishment of

developmental funds at the level of confederation. Many of these elements are going to be considered within the framework for the cooperation in the South-east Europe. The explanation proposed by proponents of “The Slovene model” that one type of confederation is the best institutional solution for the system faced with its key problem – how to cover the costs caused by the bankruptcy of socialism (Petak 1990: 34).

Refusing such a proposal, the proponents of “The Foca model” caused severe military conflict. Over one thousand of persons are killed, millions of citizens in Croatia, Bosnia and Herzegovina, as well Kosovo, are replaced from their homes. The proponents of the latter model faced particularly severe slop-down, together with Bosnia and Herzegovina, which past through total economic disaster. The proponents of the former model are in the much better position. Slovenia practically became the member of the European Union, waiting just for the formal inclusion in EU membership. In the same time, Slovenia is the leading transition country, approaching in its level of economic development to countries like Portugal and Greece. Croatia is now also on the European way, expecting that by 2007, together with Romania and Bulgaria, it will become 28th member of the European Union. The liberal, “Slovene model” showed itself as a better solution for coping with he bankruptcy of socialism.

| Table 1 – Structure of GDP and the proportion of inter-republic trade in 1986 | | | | | | |
|--|-------------------------------|----------------|------------------|-------------------|---------------|-----------------|
| (in billion of Yugoslav dinars) | | | | | | |
| | <i>Bosnia and Herzegovina</i> | <i>Croatia</i> | <i>Macedonia</i> | <i>Montenegro</i> | <i>Serbia</i> | <i>Slovenia</i> |
| Personal consumption | 1,550.8 | 2,517.2 | 647.2 | 240.1 | 3,875.0 | 1,571 |
| Public consumption | 245.3 | 461.0 | 77.1 | 41.0 | 688.3 | 342.1 |
| Investments | 960.3 | 1,981.9 | 386.7 | 219.1 | 2,439.6 | 1,175.6 |
| Export | 709.7 | 1,542.4 | 215.0 | 100.9 | 1,611.9 | 1,503.3 |
| Sale to other republics | 2,240.0 | 3,387.9 | 1,056.1 | 539.9 | 6,780.9 | 2,804.3 |
| Statistical difference | 281.8 | 63.9 | 137.8 | 32.3 | 609.7 | 235.2 |
| TOTAL GDP | 5,988.8 | 9,954.4 | 2,519.9 | 1,113.3 | 16,005.4 | 7,614.3 |
| Import | 656.3 | 1,334.7 | 311.3 | 77.1 | 1,633.3 | 1,383.1 |
| Purchasing in other republics | 2311.0 | 3,161.8 | 939.3 | 578.0 | 6,424.4 | 2,365.7 |
| Percentage of sales to other republics | 37.4 | 34.0 | 41.9 | 48.5 | 42.4 | 36.8 |
| Percentage of purchasing from other republics | 38.6 | 31.8 | 37.3 | 51.9 | 40.1 | 31.1 |

Source: Federal Bureau for Statistics, Belgrade, 1991.

| Table 2 – Unemployment rate in Yugoslav federal units | | | | | | | | | | | |
|--|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | <i>1980</i> | <i>1981</i> | <i>1982</i> | <i>1983</i> | <i>1984</i> | <i>1985</i> | <i>1986</i> | <i>1987</i> | <i>1988</i> | <i>1989</i> | <i>1990</i> |
| Yugoslavia | 13.8 | 13.8 | 14.4 | 14.9 | 15.7 | 16.3 | 16.6 | 16.1 | 16.8 | 14.9 | 15.9 |
| <i>Less-developed regions</i> | | | | | | | | | | | |
| Bosnia-Herzegovina | 16.6 | 16.7 | 17.9 | 20.3 | 23.0 | 24.4 | 24.3 | 23.1 | 24.1 | 20.3 | 20.6 |
| Macedonia | 27.9 | 29.0 | 28.1 | 26.4 | 26.7 | 27.6 | 27.7 | 27.3 | 27.1 | 21.9 | 22.9 |
| Montenegro | 17.5 | 18.1 | 19.3 | 21.6 | 23.5 | 24.6 | 24.6 | 23.6 | 26.3 | 21.6 | 21.6 |
| Kosovo | 39.0 | 39.1 | 41.0 | 44.5 | 49.9 | 54.2 | 57.1 | 57.0 | 57.8 | 36.3 | 38.4 |
| <i>Developed regions</i> | | | | | | | | | | | |
| Slovenia | 1.4 | 1.6 | 1.7 | 2.0 | 1.9 | 1.8 | 1.7 | 1.8 | 2.5 | 3.2 | 4.8 |
| Croatia | 5.7 | 6.1 | 6.9 | 7.4 | 7.7 | 7.9 | 7.9 | 7.8 | 8.5 | 8.0 | 8.6 |
| Serbia (proper) | 18.9 | 17.7 | 17.9 | 17.3 | 17.0 | 17.4 | 17.9 | 17.8 | 18.1 | 15.6 | 16.4 |
| Vojvodina | 14.4 | 14.6 | 15.1 | 15.6 | 15.7 | 15.7 | 15.6 | 13.9 | 14.3 | 13.6 | 16.6 |

Source: Woodward 1995a, pp. 384

| <i>Types of expenditure</i> | <i>1990 Budget</i> | <i>1991 Budget*</i> |
|--|--------------------|---------------------|
| 1. JNA (Federal army) | 46.9 | 68.0 |
| a. Current expenditure | 39.8 | 57.7 |
| b. Military pensions | 5.1 | 10.3 |
| c. Funds from previous year | 1.9 | - |
| 2. Second world war veterans pensions and protection of disabled persons in that war | 8.3 | 16.5 |
| 3. Federal administration | 9.2 | 9.6 |
| 4. Financing less-developed republics and provinces | 4.7 | 4.9 |
| 5. Social program | 1.8 | 2.2 |
| 6. Economic transfers | 25.3 | 34.7 |
| a. Agricultural subsidies | 4.0 | 7.0 |
| b. Returns of custom and tax levies | 7.5 | 7.7 |
| c. Funds for covering bank bankruptcies | 2.1 | 2.0 |
| 7. Current reserve deposits | 0.2 | 0.7 |
| 8. Obligations from previous years | 0.9 | 1.1 |

Source: *Ekonomska politika*, May 27th 1991: 10

| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 |
|------------------------|------|------|------|------|------|------|------|------|------|------|
| Bosnia and Herzegovina | | | | | | | 37.0 | 38.0 | 40.0 | 40.1 |
| Croatia | 14.1 | 17.8 | 16.6 | 17.3 | 17.6 | 15.9 | 17.6 | 18.6 | 20.8 | 21.5 |
| Macedonia | 24.5 | 26.2 | 27.7 | 30.0 | 35.6 | 38.8 | 41.7 | 41.4 | 47.0 | - |
| Montenegro | 21.0 | 24.6 | 23.1 | 23.1 | 24.6 | 25.8 | 25.8 | 25.1 | 26.5 | 27.3 |
| Slovenia | - | - | 9.1 | 9.1 | 7.4 | 7.3 | 7.1 | 7.6 | 7.4 | 7.2 |

Source: Jeffries (2002)

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