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CONTENTS

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COMPETITIVENESS AND EXCHANGE RATE POLICY IN SERBIA*•

Abstract: *This article deals with the relationship between competitiveness and economic policy. The first chapter exposes the differences in defining competitiveness of goods and services, companies and national economy. The second one exposes thoroughly the relationships between macroeconomic variables and economic policy instruments that determine relative prices, interest rates and exchange rates. Linked together, those factor prices determine overwhelmingly the competitiveness of national economies. Inadequate economic policies cannot be compensated for by any efforts of firms. The third chapter analyses exchange rate policies in Serbia. One can conclude that those policies are not conducted in conformity with the knowledge available in the economics profession and are the main factor of the lack of price competitiveness of the Serbian economy.*

Key words: *competitiveness, economic policy, exchange rate, purchasing power parity, interest rate parity*

1. Competitiveness of products, companies and national economy

The starting point of all issues relating to competitiveness is production of goods or services in a company. Price competitiveness in exports and at the domestic market compared to foreign offers entails the same price of domestic products for the same quality as of foreign products. Non-price competition results from differences in quality (higher prices are set for better quality products), but also from imperfect competition based on natural or technical monopoly, economies of scale and external economies, market segmentation and product differentiation. It is evident that factors of competitiveness do not apply equally to all the products of a company.

* *Translated from Serbian by Maša Stojičić.*

• *Paper presented at International Scientific Meeting: "Strengthening the Competitiveness of Firms and Economy", Megatrend University, Belgrade, December 9th, 2005*

In an open economy, a company is competitive if it achieves the profit margin of the group of companies it belongs to in domestic and regional (European) economies. Competitiveness of a company depends on some internal and some external factors. Internal determinants include the quality of combining and use of available factors of production – the quality of production management, choice and application of technology and especially the quality of development strategy. In relation to the firm, external determinants of competitiveness include conditions of business activities shaped by national economic policies: availability of loans and interest rates, tax rates and tax breaks, support provided for investments, development, for exports and by the level and structure of real customs protection of the domestic economy.

If there are enough competitive companies in a national economy, it has the necessary but not the sufficient conditions of international competitiveness. It is internationally competitive when it provides a medium and long-term balance of exports and imports of goods and services, not to depend on others or future generations. Small national economies cannot influence the external factors of their competitiveness. The conditions of business in relevant world regions are exogenous for them. The most they can do is to pursue macroeconomic policies that encourage development, investments, the use of modern technology, entrance into world markets, as well as by providing equal opportunities for domestic firms in the domestic market.

Is it possible to have an overwhelming majority of products and services, namely a great majority of firms, uncompetitive or working with losses in a national economy? In a national economy, with its own national currency and domestic market of goods and factors of production, this can only be an illusion, but not a real situation. In a national economy, firms are placed, on the ground of their performance and competitiveness, in a statistically normal distribution[1]. There are a small number of firms working with losses in one of the tails and a small number of those working with extremely high profits at the other tail of the distribution. In the middle, there is a majority of firms with average profits and competitiveness. If data show that most firms are supposedly running at a loss or that domestic prices are higher than foreign prices, it only demonstrates that macroeconomic prices are not properly set. This is due to the macroeconomic policy or it might be due to an incorrect interest rate, exchange rate, tax rate or any other variable. Firms do not show actual business results under these circumstances, (for the calculation was done with false parameters). Part of their value added (based on interest rate, exchange rates and taxes) is channelled to other sectors when gross national product (GNP) is calculated. It is wholly justified to cover some supposed losses of businesses by that part of GNP, although it would be better that such 'losses' have never been made. Higher actual interest rates and taxes in the country compared to those abroad and overvalued national curren-

[1] Pointed out many times by Prof. Branko Horvat.

cies are able to make even the strongest economy an uncompetitive one. At such exchange rates, calculated domestic prices appear higher than foreign prices.

The conclusion can be drawn that the firm may control only the necessary but not the sufficient conditions of its competitiveness. The sufficient conditions are fulfilled only if the economic policy leads to equilibrium values of macroeconomic parameters. The constellation of macroeconomic factors differs in different national economies. This is the reason why the key role of the exchange rate is to connect all national macroeconomic parameters into a transparent matrix that enables rational decisions to be made about the level of cooperation among national economies and the internationalisation of the activities of firms.

2. Competitiveness and economic policy in an open economy

The exchange rate (the price foreign currency expressed in units of domestic currency) is the key 'interpreter' for comparing macroeconomic parameters of various national economies that serve as the basis for business decision making about production and trade transactions among the subjects of different countries.

It is completely wrong to believe that central bank is exclusively in charge of the exchange rate and its dynamics and that this bank has the right to set that parameter and that national economy and its international relations have to comply with it[2] .

Even the simplest macroeconomic models show quite the opposite. In *the real sector* of the economy (production Y and demand D), in *the monetary sector* (money supply and demand M^s, M^d), on *the financial market* (demand and supply of financial assets, interest rate R and foreign exchange rate E), as well as the in *the external sector* (export of goods and services, ratio of domestic to foreign prices and real foreign exchange rate q), key macroeconomic aggregates are simultaneously determined, as well as the price variables (prices, interest rates and foreign exchange rates).

This means that the change in one variable has an influence over the most of the others, namely economic policies cannot be pursued in separate sectors or departments. Interest rate and exchange rate policymakers must be aware of the influence of the measures they undertake on other aspects of the economy. A special attention should be paid to those variables that are fundamental for competitiveness of domestic economy in relation to other national economies (both in the real and financial sector).

It is extremely important to be aware and pay attention to the fact that the balanced levels of the key 'prices' (interest rates, nominal and real foreign

[2] If this were the real situation, there would not be black foreign exchange markets and incorrect import and export customs declarations.

exchange rates, ratio of foreign to domestic prices) are created simultaneously, not only in an interaction with other variables in domestic economy, but also in some relevant parts of the world economy. In other words, the balanced relative prices (plus inflation), interest rates and foreign exchange rates can match only if they fit in the existing constellation of the same relevant aspects in the world economy. This interdependence is the focus of the next three chapters.

The external sector in the open economy is integrated completely into the real and financial sectors. It stands out only if the current account of the balance of payments *CA* requires special attention of economic policy.

2.1. The real sector

In the real (as well as in the monetary and foreign exchange) sector, the aim of economic policy is striking a balance between demand and supply on the highest possible level of GNP (and unemployment as well), whilst keeping the inflation rate as low as possible. In the following analysis of the conditions of equilibrium in the real sector, relevant variables in the Serbian economy will be labelled by the subscript *din* whilst the same variables will be labelled by the euro symbol € for the relevant foreign countries (the European Union). This marking method applies also to price variables (ratio of domestic and foreign prices, interest rates and foreign exchange rates). The condition for equilibrium in the real sector is that GNP (*Y*) be equivalent to the total demand *D*. In *nominal* terms the equation is:

$$Y=D= C\ (Y\text{-}T) +I+G+CA\ (E\ P_{€}/P_{din},\ Y\text{-}T). \qquad (2.1.)$$

If we divide the whole equation with P_{din}, the same result in *real* terms is obtained.

Production *Y* has to cover domestic demand modified by the current account of the balance of payments. The determinants of domestic demand *C (Y-T)* are the disposable national income Y^d which is GNP (*Y*) reduced by the amount of tax paid *T*, investments *I* and public expenditure *G*. In the open economy, this total of domestic demand is corrected by the total of the current account of balance of payments *CA*. This sum total represents the gap between exports and imports of goods and services. Exports represent additional demand for domestic products and services and the imports reduce that demand and direct it to the import of goods and services. Export determinants are ratios of foreign to domestic prices $P_{€}/P_{din}$ and nominal foreign exchange rates *E*. These are the direct macroeconomic factors of competitiveness. Import determinants are disposable national income Y^d, nominal foreign exchange rates and rations of foreign and domestic prices. Depending on the degree of openness of the national economy, the total of the balance of payments can have a great impact on domestic demand and production. The surplus of the balance of payments increases domestic production while deficit decreases it. This is how three out of four determinants of the total of the balance of payments influence general macroeconomic equilibrium, production, domestic demand and employment and all these three are different concepts of the foreign exchange rate.

$E_{din/€}$ is the short-term nominal foreign exchange rate. The price (index) ratio is a determinant of the long-term equilibrium foreign exchange rate based on the purchasing power parity of national currencies. Together, these determinants form the equation:

$$q_{din/€} = E_{din/€} (P_€ / P_{din}),$$

that is, in fact, the definition of the real foreign exchange rate.[3]

Therefore, the foreign exchange rate is not a partial issue that is only a concern of the central bank and foreign currency traders. In its three mentioned forms, it has an influence over overall macroeconomic equilibrium. This is the reason why foreign exchange policy is not to be pursued following someone's subjective convictions or prejudices. How should it be pursued? It should be pursued, as the aforementioned macroeconomic relations require in the domestic and relevant parts of the world economy.

2.2. The monetary and foreign exchange sector

The requirement for monetary equilibrium of a national economy is that money supply must equate money demand. The equation follows:

$$M^s = P\,[\,L\,(R,Y)\,]\,,$$

$$\text{i.e. } M^s / P = L\,(R,Y) \qquad (2.2.)$$

where M^s represents nominal money supply, controlled by the central bank, which should be equal to real money demand L that depends on the interest rate and GNP(Y). At given real money demand, nominal demand will change in proportion to the price level change. The inverse relation is also valid:

$$P = M^s / L\,(R,\,Y), \qquad (2.3.)$$

[3] We have here decided to build the whole exposition on the bilateral nominal and real exchange rate: x dinars to one euro, which is the key exchange rate in the Serbian economy. If we took a currency basket with specific ponders of each of the national currencies included, we would have used nominal effective and real effective exchange rates. The above statements would still be valid.

which shows that the change in the ratio of money demand to money supply is a determinant of the general price level in national economies.

The central bank is the most influential factor in setting interest rates in a national economy. With its discount rate policy as well as with its indirect influence on commercial banks, the central bank determines largely the interest rates. However, in an open economy the central bank is not independent for it has to be aware of the gap between domestic R_{din} and (relevant) foreign exchange rates $R_{€}$. This relation creates two further relations of great importance to macroeconomic stability and competitiveness of the domestic economy. The first relation is illustrated by Fisher's rule:

$$R_{din} - R_{€} = \pi^{e}_{din} - \pi^{e}_{€} \tag{2.4}$$

This rule shows that the differences in the national levels of interest rates are the result of expected differences in national inflation rates (π^{e})[4]. Changes of discount rates are relatively rare, while international transactions and changes of foreign exchange rates are highly frequent. That is why, in the short-run, another relation, the interest rate parity,

$$R_{din} - R_{€} = (E^{e}_{din/€} - E_{din/€})/\ E_{din/€} \tag{2.5}$$

leads to changes in foreign exchange rates so that they always equate the return on financial assets at home and abroad (when expressed in the same currency).

This rule is a key short-term determinant of exchange rates and of their variability on foreign exchange markets. Two arguments support this explanation of short-term determination of the exchange rates. First, the fundamental macroeconomic relations (which create long-term equilibrium exchange rates) are simply not available in the very short run. Second, a huge majority of transactions on foreign exchange markets is no longer related to real but financial transactions. The annual amount of world exports paid for by making and receiving payments through conversion and transfer of currencies (commercial bank deposits) totals around 8 thousand billion dollars. At the beginning of the new millennium, the daily turnover on world foreign exchange markets amounted to 1,900 billion dollars.[5] It makes sense to expect that financial transactions largely determine foreign exchange rates in the short run.

If foreign exchange trade is in effect trading deposits at banks denominated in different currencies, it is then to expect that the price of foreign currency (deposits) will be set in the same way as the price of other financial assets: depending on

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4 Superscript ***e*** represents the expected value of some variables.

5 Bank for International Settlements: *75th Annual report*, Basel, 2005

return corrected for the level of risk involved. As each purchase of financial assets also includes currency conversion, the return on foreign exchange deposits will depend not only on the interest rate but on the foreign exchange rate as well. If the return from interest differs, then the change in the exchange rate has to compensate for it. This happens regularly on foreign exchange markets, where nominal foreign exchange rates are constantly changing in relation to the expected rates $E^{e}_{din/€}$. The expected foreign exchange rates are related to the day of expiry of the deposit, for it is necessary to have expectations of the foreign exchange rates that will determine the rate of conversion of foreign exchange deposits and their interest return into domestic currency. It is expected that a foreign exchange deposit from interest and change in the exchange rate, until the deposit expiring date, yield the same return as a deposit in domestic currency.

In the long run, the fundamental macroeconomic variables have greater impact on the formation of the expected foreign exchange rates. Daily discrepancies in relation to the expected rates are fully influenced by expectations of the market participants. Those expectations are obtained from the relation of the current exchange rate to the expected future exchange rate. According to Krugman and Obstfeld[6], such expectations are created as shown on Figure 1.

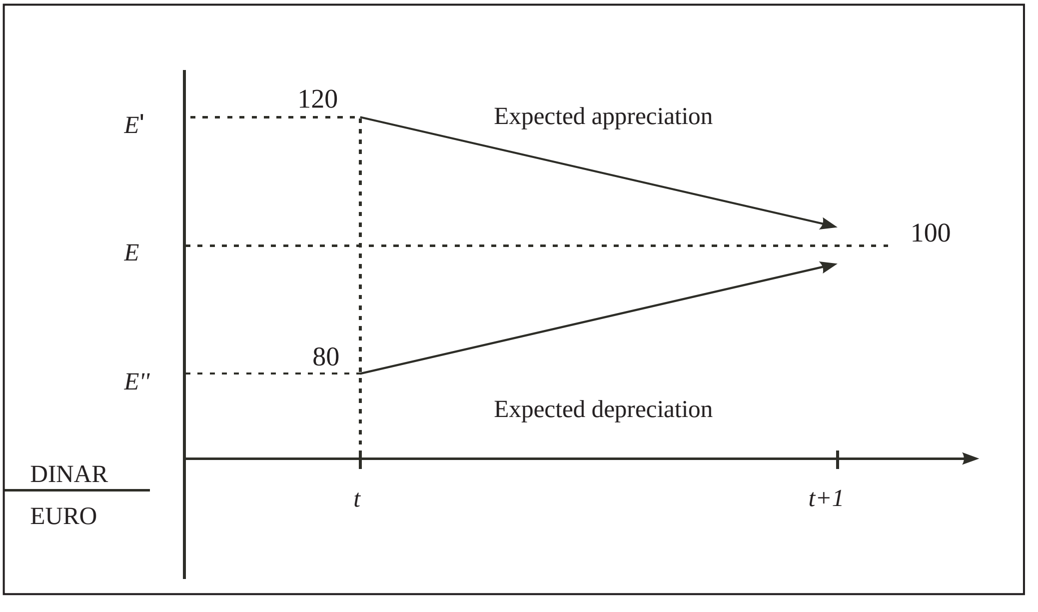

Figure 1: *The role of expectations in the foreign exchange market*

6 P. R. Krugman, M. Obstfeld, *International Economics, Theory and Policy*, Boston: Addison-Wesley, 2005; L. S. Goldberg, M. W. Klein, J. Shambaugh, *Study Guide*, *International Economics*, Longman, 2000

For instance, if the expected rate for the end of time period *t+1* amounts to 100 dinars to one euro, the expectations about changes in the exchange rate are based on the position of the current market rate in relation to that expected rate.

If the current rate (in period *t*) is 80 dinars to one euro, market participants expect an increase in the rate, namely a depreciation of the dinar to the expected rate. If the current market rate is above the expected, the fall in the rate or a dinar appreciation is expected. With the huge trade of deposits on the international financial markets, such changes in the market rate in relation to the expected exchange rate are constantly equating returns on deposits denominated in different currencies.

The way in which previously mentioned relations in the monetary and foreign sectors of national economies simultaneously generate foreign exchange rates in the short run is shown by the Figure 2.[7]

The picture combines charts showing equilibrium on monetary (the lower part of the picture rotated 90 degrees) and foreign exchange markets under interest parity. Real money supply corresponds to real supply on the money market and determines the interest rate of R^1_{din}. This interest rate is the return on deposits denominated in the domestic currency and goes to the upper part of the picture, which shows the foreign exchange market. Equilibrium in the foreign

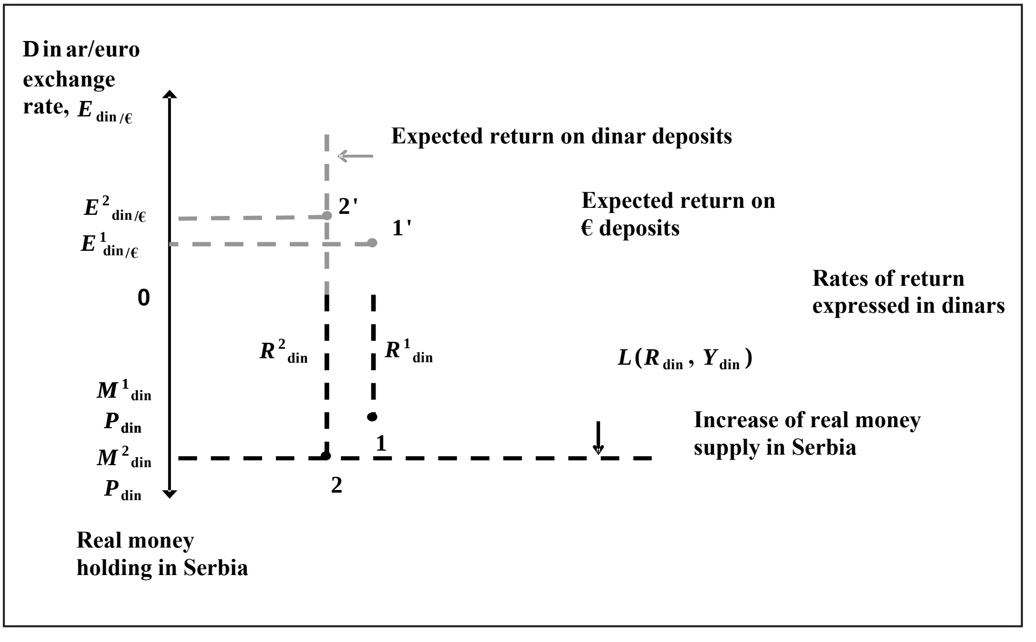

Figure 2: *Effects of change in interest rates and money supply in relation to the price of Euro, shown in national currency*

7 Ibidem

exchange market exists only when returns on foreign exchange deposits (interest and change in the exchange rate) and domestic currency deposits (determined by R^1_{din}) are equal. It happens only at the rate $E^1_{din/€}$, where two yield curves intersect. Foreign currency deposit returns are downward sloping as the return in the national currency goes up at the given interest rates. Then the foreign exchange rate goes down and domestic currency appreciates. Such an appreciation immediately brings about an expected prospective depreciation and therefore increases the expected foreign currency return (based on conversion into domestic currency at a higher exchange rate).

We can follow the dynamics of simultaneous adjustments on both markets if we presume changes in any key variable. For instance, let us imagine that in the domestic economy, with constant prices, production and real money demand, the real money supply increases. A surplus of money supply appears, which reduces interest rates from R^1_{din} to R^2_{din}. This is how the return on domestic currency deposits in the upper part of the picture goes down becoming lower than the yield on foreign exchange deposits. With the initial exchange rate $E^1_{din/€}$, domestic currency deposit holders sell them wanting to buy foreign exchange deposits. This increases foreign exchange demand, the national currency depreciates to $E^2_{din/€}$ and the returns equalise. This momentary depreciation is sufficient to reduce the expected future depreciation exactly by the effect of the interest rate decrease.

This mechanism of short-term movements in the foreign exchange market is constantly 'overshooting' changes in exchange rates, in order to encourage changes in the expectations by market participants. This mechanism is defined in the literature as 'overshooting' and is part of the tendency of convergence of short-term exchange rates to long-term equilibrium rates.

The long-term equilibrium exchange rate is what contributes to simultaneous domestic equilibrium and desired (acceptable) level of the long-term balance of payments. It is influenced by all fundamental macroeconomic variables that have been replaced by monetary variables in the previous analysis presenting the short-term model of determination of the foreign exchange rate. It refers especially to national price levels i.e. price index movements, which forms the basics of the absolute and relative version of theory of purchasing power parity (PPP) of national currencies.

Equations (2.5) and (2.4) have shown that movements of exchange rates are a consequence of changes in national price levels. The interest parity theorem tells us that the differences in national interest rates determine market exchange rates. On the other hand, equation (2.4), namely Fischer's rule, shows that the differences in national interest rates are equal to the difference between *expected* national inflation rates. It turns out that changes of exchange rates are consequences of differences in national inflation rates. Within Fisher's rule calculations are ex ante; how much, at given inflation rates, nominal interest rate has to be higher to secure the desired real interest rate. When calculating the exchange rate according to the relative version of the theory of PPP, calculations are retroactive.

Krugman and Obstfeld give two exchange rate equations based on PPP of different national currencies. The first one is calculated retroactively:

$$(E_{din/€,t} - E_{din/€,t-1})/E_{din/€,t-1} = \pi_{din,t} - \pi_{€,t} \tag{2.6}$$

which means that the rate of change of the exchange rate is calculated as the difference in rates of price increase.[8] It is expected that participants in international transactions are not only familiar with purchasing power parity but they also have their own expectations of national rates of price increase. If they insert them into equation (2.6), a new estimation of the expected exchange rate will be obtained, which is of great importance as a benchmark also in the short-term model of the exchange rate:

$$(E^{e}_{din/€} - E_{din/€})/E_{din/€} = \pi^{e}_{din} - \pi^{e}_{€} \tag{2.7}$$

The term *real exchange rate* that corresponds to the term real interest rate follows the definition of PPP. The definition of real exchange rate is presented at the very beginning of section two of this article. The nominal exchange rate corrected for the parity of purchasing powers represents the real exchange rate. In the relative version of PPP, real exchange rate is expected to remain unchanged all the time: if the nominal rate changes, it is compensated for by the change in the relation between domestic and foreign prices. This relation has been the starting point for an enormous number of empirical studies on purchasing power parity in some thirty years. Not many empirical studies have shown constancy in real foreign exchange rates. There have been some reasonable explanations of causes of shifts in real exchange rates. The oldest explanation is Harrod-Ballassa-Samuelson's effect. It claims that in some countries with large increases in labour productivity, especially in exports, there are such changes (at fixed *nominal* exchange rates) in the relation between foreign and domestic prices that in reality there is a *real* appreciation of the currency and therefore a change in the real exchange rate. Changes in real exchange rates are also explained by transport costs, customs and similar duties, imperfect competition that allows market segmentation, product differentiation and price discrimination (pricing to market).

Time has shown that previous research was founded on dubious methodologies. The notion of stationarity or unstationarity of time series, the term cointegration and relevant econometrics of time series did not exist. As the

[8] Ibidem

majority of economic time series are nonstationary, applying the least squares in the analysis of their characteristics and correlation was inappropriate and it did not have the strength of valid evidence.

Only as recently as ten years ago or even later, the results of empirical research on the most important theories of determination of the exchange rate, in compliance with a new method, started to emerge. The following hypotheses were tested: that the time series of the exchange rate is stationary (which would confirm the theory of purchasing power parity), that the foreign exchange rate and its determinants, being nonstationary, are co-integrated into a stationary relation that allows the use of 'least square' estimators. Sarno and Taylor also refer to the results of ARIMA and similar methods which might confirm the purchasing power parity of national currencies in case it turns out that exchange rate fluctuations occur around some stable mean value (mean reverting).[9]

New research has actually given much better result in the implementation of the theory of purchasing power parity, even in the more recent period of general floating of national currencies. The controversy is obviously not over yet, as it has been proved that certain tests in the cointegration method (especially multivariational) or in panel regression, are not appropriate and some new tests for these procedures are yet to be made. A special branch of research started from the assumption that some series are not linear and that the issue of inappropriate methodology becomes even more complex in case of the connection among more nonlinear series.

Thus, purchasing power parity could not be discredited as a steady, long-term average tendency of the exchange rate. It is reasonable if we take into account the fact that the real economy and the balance of payments affect the exchange rate in a longer period than the monetary factors that have daily impact on it. Kurgan and Opstfeld and many others have kept purchasing power parity of national currencies as a necessary relation in their model of foreign exchange rate determination, with one rational correction.[10] The conclusion drawn from the previous definition of real exchange rate: $q_{din/€} = (E_{din/€}\, P_{€}/P_{din})$ follows as:

$$E_{din/€} = q_{din/€} \cdot P_{din} / P_{€} \tag{2.8}$$

It leads to a conclusion that the impact of PPP (if movements in real exchange rates are insignificant or easy to measure and estimate) on the expected nominal market exchange rate (*E)* may be calculated. It can also be said that the policy of a stable *real* foreign exchange rate may produce good results, for (2.8) shows that nominal rates (that works well on a foreign exchange market) will always adjust to changes in price ratios and will therefore show regard for the macroeconomic

9 I. Sarno, M. P. Taylor, *The Economics of Exchange Rates*, Cambridge: Cambridge University Press, 2002

10 P. R. Krugman, M. Obstfeld, ibid.

competitiveness of the national economy. If all this is applicable, not only in theory, but also in practice in many countries, it should also apply for in Serbia.

3. Exchange rate policy in Serbia

In all its state forms, Serbia has always been prone to pursuing the policy of a fixed nominal (therefore unstable real) foreign exchange rate. During the period of the gold standard and the Bretton Woods international monetary system (up to 1973) that did make sense.

With the later non-system, at the time when even the most important world currencies were floating with big oscillations, Serbia kept the prejudice that the policy of fixed nominal rate is still a good one. Naturally, it became hugely unreal in inflationary conditions, when foreign currencies became undervalued, the dinar overvalued and all this annulled any attempt by firms to remain competitive in exports and domestic market.

The truth is that very little has been known about real foreign exchange rates and there has not been much research on the subject. Recently, even those who are familiar with the subject and carry out research (international economic and financial organisations) impose fixed nominal rates to prevent inflation. All research has shown that fixing nominal foreign exchange rates gives only short-term results, and then, consequently the price of great appreciation of the national currency has to be paid (excessive balance of payments deficit, unsustainable international debt of the country).

Despite the fact that there have been some data and research on real effective foreign exchange rates in Serbia, the obsession with fixed nominal exchange rates has remained. The dollar and the euro oscillate more than ± 10% during a year, while the dinar remains relatively stable. Are there real economic parameters as the ground for such stability? Is the Serbian economy really more efficient and stable than the strongest economies of the world? The data on employment, living standards, productivity and poverty rate in Serbia reveal quite a different side of the story.

The obsession of keeping fixed nominal foreign exchange rate was present before the hyperinflation and after it at the end of the last and at the beginning of this century. This is a logical reason why the real effective rate caused real fiasco in the economy and in economic relationships with foreign countries.

There is not much research on the real effective exchange rate of the dinar (compared to a currency basket) but it is enough to support the previous statement. Hyperinflation was so high that the attempt to connect price indices before and after it in a usable time series was preposterous. The bulletin published by the National Bank of Serbia gives data on the real effective dinar exchange rates for the period after the year 2000.

Table 1: *Real effective Dinar exchange rate indices*

End of the previous year = 100

Year	Chain indices	Cumulative			
2001	130.0				
2002	116.8	151.84			
2003	101.9		154.72		
2004	98.9			153.02	
2005 I – III	100.3				153.48

Source: The National Bank of Serbia: *Statistički bilten*, May 2005

At the end of the year 2000, there was an increase in already unrealistic foreign exchange rate from 6 dinars for one German Mark (DEM) to 30 dinars for one DEM. The nominal rate was thus simply equalised to the black market rate. In relation to the end of 2000, the real effective rate of the dinar (in relation to the currency basket) appreciated a lot in 2001 and 2002. Not until 2004 did a mild real depreciation happen. The problem lies in the fact that such a small depreciation could not correct such a huge accumulated appreciation. At the end of March 2005, such cumulative appreciation amounted to 53.48%.

There has been recent research observing not only changes in real exchange rates, but also their connection to major macroeconomic variables.[11] In the study published by "CES Mecon", a group of authors calculates the real exchange rate only in relation to the euro, and not to the euro and other currencies represented in supply and demand, namely in the structure of international payments of Serbia.[12] Judging by the structure of exports and imports of goods, the euro makes up for 50% of the total amount of foreign trade. We should bear in mind that fuel import is paid in dollars and that part of the foreign debt repayments and interest (extremely inflexible foreign exchange demand) is in dollars. The fall in the price of the dollar to the euro (and the dinar), with statistics of total trade calculated in dollars, overestimates the value of exports and imports.

The study shows imports of goods as robust and unaffected by structural changes. Import depends on domestic demand in all sub periods (approximated by changes in real wages), on relative prices, the real foreign exchange rate and changes in effective protection of domestic production. Raw material and equipment imports demand is less price elastic than demand for consumer goods that

11 O. Kovač, "Makroekonomsko modeluranje – kontinuirana potreba", *Ekonomski anali,* Occasional Paper, March 2005

12 M. Arsić, Z. Mladenović, P. Petrović, *Makroekonomsko modeliranje privrede Srbije,* Beograd: CES Mecon, 2005

have domestic substitutes. The elasticity of imports of consumer goods in relation to the real exchange rate is very high and indicates the possibility of bringing those imports to a normal level by diminishing the dinar appreciation.

It is interesting to note that there still has not been any analysis on the relation between domestic and foreign interest rates and their impact on the foreign exchange rates. Does it mean that the financial sector of the Serbian economy is not actually in connection with the international financial markets or do we know too little about that?

The results of the estimation of the role of money demand in this study indicate movements in real gross wages and real foreign exchange rates as the key determinants of real money demand. In the relationship – real money, real wages and foreign exchange rates – money demand is an endogenous, and real wages are (as an approximation of economic activity) an exogenous variable.

As it cannot have an impact on real wages, monetary policy has only money supply instruments available. Since the relation between relative prices, namely the real exchange rate, is the main determinant of export competitiveness, money demand should not lead to the appreciation of the dinar. The policy of a relatively constant *real effective* exchange rate (not only in relation to the euro) seems to be a reasonable goal. To what extent indexation is reduced as time goes by depends on the decline of inflation. It is at the stage at which shock therapy and the exchange nominal anchor do not make much sense.

Other conditions for pursuing a policy of stable real exchange rate are also not fulfilled. There is no consistent macroeconomic policy towards it in Serbia. It is not only that the dinar is mostly facing appreciation instead of depreciation in line with the inflation difference between Serbia and relevant foreign countries, but even Fisher's rule is not respected. Neither is the parity of interest rates.

According to Fisher's rule, interest rate differences among major trade blocks are changing in accordance with *expected* inflation. National levels of interest rates differ as the expected inflation rates differ. The Bank for International Settlements in Basel analyses that relation with the help of the national central bank discount rates, which are totally under the control of monetary policy. During 1991-2005, the inflation rate (retail prices) was higher in the USA than in the European Union and Japan.[13] Although discount rates in the USA and the European Union are *in real terms* close to zero, they are nominally somewhat higher than the inflation rates and they are generally higher in the USA than the European Union and Japan. Together with large deficit of the balance of payments in the USA, it explains the period with the nominal dollar depreciation.

The inflation rate in Serbia from 2000 to 2005 is higher than the inflation rate in the EU by 15.7% to 74.7 % (depending on the year).[14] Instead of depreci-

13 Bank for International Settlements, ibid.

14 Economic Commission for Europe: *Economic Survey of Europe 2004*, No. 2, United Nations, New York and Geneva, 2004; National Bank of Serbia: Statistički bilten, May 2005

ating, the dinar cumulatively appreciated by 54%. With such a gap in inflation rates, the discount rate in Serbia was supposed to be higher than the one in the EU by the same percentage. In reality, it was generally higher by only 6.5% to 22%. It created an illusion that the level of overvaluation of the dinar is lower than it really is. On the other hand, in the first half of 2005, when the inflation rate (I-VII 2005 compared to the same period in 2004) amounted to 17.2%, the interest rate of commercial banks started to go up at a high speed, although the discount rate remained 8.5%. This discount rate is negative in real terms and it amounts to subsidising of commercial banks. Might it possible that such discount rate compensate them for the harm imposed by the dinar appreciation?

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REVENUE SOURCES FOR FINANCING THE EUROPEAN UNION BUDGET*

Abstract: *Financing the European Union has been the focus of attention and constant debates of the European public and European politicians since the foundation this supranational institution. The issue has become particularly significant in recent ten years, as the European Union has increasingly become financially dependant on member states and their payments. There are few suggestions on the introduction of new, own sources of revenues of the European Union budget. This article deals with the current system of financing, its drawbacks and suggested ideas for some new own resources of the Community budget.*

Key words: *the European Union, financing the European Union, the EU budget, contribution from member countries, own revenues.*

1. Introduction

The European Union as a supranational organization consists of 25 member states in total, whereas this number is expected to increase in the future. This supranational entity would become even more powerful by the acceptance of new member states.

It is important to emphasise that the internal structure and work of the European Union have significantly changed from its formation until today. First, three associations were formed in the 1950s: the European Coal and Steel Community (ECSC) established by the Treaty of Paris in 1952, then the European Economic Community (EEC) founded by the Treaty of Rome in 1957 and the European Community for Atomic Energy (Euroatom). The three associations subsequently united and formed a supranational entity called the European Union.

What is peculiar is that even when there were three separate communities, the member states raised the issue of their financing. In the beginning, all three associations financed mainly their activities by contributions from the budgets

* *Translated from Serbian by Maša Stojičić.*

of member states. The only association to have its own source of income – coal tax – was ECSC, but it could not provide sufficient funds for financing all the costs of its budget.[1] Due to this situation, the associations insisted to introduce their own sources of revenues so that they could provide enough means to enable the highest possible level of financial independence from member states. However, for the first time, the system of own revenue sources of the European associations was established in 1970, by the introduction of tax revenue, agricultural duties and sugar levies, as well as claiming a part of the value added tax (VAT), collected on the territories of member states. However, it was possible to carry out the financing mainly with the help of member states' contributions, whose share in the total revenue of the associations was increasingly declining.

We can say that not until 1985 did the system of own budgetary resources of the European Community start to develop, in the true sense of the word. In that year, a revenue source based on gross national product (GNP) was introduced, as part of own resources system of the European communities. However, instead of providing financial independence in relation to member states by the introduction of own resources, a paradoxical situation happened – the dependence increased. This happened because the resources based on VAT and GNP became the most important sources of financing the European Union, and they were diverted from member states. Though the VAT-based and GNP-based resources formally belonged to own sources of the European Union, they were in fact 'quasi own' income. The aim of this article is to deal with the above problems, as well as the numerous suggestions for their solution, more or less based on the introduction of new revenue sources of the European Union budget. We will also deal with the issue of the relationship of the European Union with member states, or the principles of this relationship, as one of the key points we should begin with, when trying to solve the problem of financing the budget of the European Union.

2. Relationship between the European Union and its member states

The issue of financing the European Union is directly associated to the issue of the relationship between the Union and its member states and to a specific nature of this supranational institution.[2] Unlike some traditional international organizations, such as the International Monetary Fund and the United Nations, which are financed exclusively by the payments of their member states, the finan-

1 European Commission: *European Union Public Finance*, European Commission, Luxembourg, 2002, p. 16.

2 B. Laffan, J. Lindner, "The Budget", Chapter 8 in *Policy-Making in the European Union*, edited by H. Wallace, W. Wallace, M. Pollack, Oxford University Press, Oxford, 2005, pp. 191-212.

cial and other relations between the European Union and its members are far more complex. Their operation is based on several so-called essential principles: the principle of prescribed duties, the principle of subsidiarity and the principle of proportionality. The principle of prescribed duties means that the duties of the European Union consist of the duties of member states.[3] The European Union does not have the so-called *Kompetenz-Kompetenz* (prerogatives of the European Union are not superior to the prerogatives of member states).[4] The very first meaning of the principle of subsidiarity, as one of the most important principles of the fiscal federalism, means that the public functions are carried out on the lowest possible level, if it is the most efficient way and makes the lowest administrative expenditures.[5] However, in the relationship between the European Union and its member states, subsidiarity is applied in the field of nonexclusive terms of reference of the European Union and it means that certain terms of reference are executed at the level of the Union only if there are objectives that can be reached more efficiently than if the same terms of reference were executed on the level of member states.[6] The principle of proportionality means that any action taken by the European Union will not undermine what is necessary to carry out the objectives of the Agreement on the EC.[7]

3 Exception to the principle can be found in the fields of agriculture, transport and international trade. In other fields such as the internal markets, national policies have priority, which means the European Union powers are very small and limited. A. Dashwood, "The Limits of the European Community Powers", *European Law Review*, Vol. 21, 1996, pp. 113-128; A. Dashwood, "States in the European Union", *European Law Review*, Vol. 23, 1998, pp. 209-213.

4 This principle is based on previous Article 3b, today's Article 5 on the European Community Agreement which says: "The Community will act in as stated by the terms of reference defined by the Treaty, in accordance with the limitations and in respect to the objectives". This principle has also been involved by the Convention Draft, but in a stricter form. Therefore, it is concluded that the limitations of the terms of reference in the European Union have been derived from the principle of prescribed duties imposed by member states through the Constitution with aim of reaching constitutional objectives. All other terms of reference that are not imposed on the Union belong to member states (article 9). A. Dashwood, "The Relationship between member states and the European Union/European Community", *Common Market Law Review*, Vol. 41, No. 2, 2004, pp. 357-362, and A. Dashwood, "States in the European Union", pp. 209-213.

5 S. Stojanović, *Fiskalni federalizam*, Institut za uporedno pravo/Centar za antiratnu akciju, Beograd, 2005

6 In the Constitutional order the EU principle of subsidiarity has been developed from article 9, paragraph 3, Agreement on the EC. For a more detailed analysis of the principle, see: A. Dashwood, "The Relationship between member states and the European Union/ European Community", pp. 355-381, and A. Goucha Soares, "Pre-emption, Conflicts of Powers and Subsidiarity", *European Law Review*, Vol. 23, 1998, pp. 132-145.

7 This principle is based on Article, Chapter 3 of the EC Agreement; it has been analysed in detail in: A. Dashwood, *The Relationship between member states and the European Union/European Community*, pp. 355-381

It is important now to point out that the terms of reference of the European Union are rarely exclusive; they are mostly nonexclusive and represent common terms of reference for the Union and its member states. There are also terms of reference that are only 'the support' for the terms of reference held by member states. Non-exclusiveness of the European Union terms of reference is based on the article 175 of the Agreement on the European Union, which regulates the issue of environmental protection. Common terms of reference are residual, whereas those that provide support are found in the fields of industry, health care and improvement, education, specialization, youth, sport and culture and citizen protection.[8]

3. History of financing the European Union

Since its very beginning, the European associations have mostly been financed by the payments of their member states. The treaty of Paris from 1951 defined the two ECSC budgets – the administrative and functional, or the operative budget. The Treaty of Rome in 1957 defined the two budgets of Euroatom – the administrative budget and budget for research and investments. The only one to define the general budget is the Treaty of Rome on EEC, also signed in 1957. The solutions adopted in the years to come significantly changed the situation. The agreement on joining these three associations, signed in 1965, meant the inclusion of the administrative budgets of ECSC and Euroatom into the general budget of the EEC, followed by the inclusion of the budget for research and investments of Euroatom to the general budget by the Agreement signed in Luxembourg in 1970. This is how all budgets were integrated into a single one – the Community budget. Despite the fact that ECSC had its own source of income – coal tax, its financial autonomy was very feeble, as this source provided very little and less and less in time. As a result, ECSC, as the other two European associations, was mostly funded by the payments from the budgets of member states.

Such system of financing was applied until 1970 or 1971[9] when the system of own sources of revenues was introduced. Firstly, three were three sources of income from the general budget – *customs duties, agricultural taxes and the resource based value added tax*. The first two sources of income are considered traditional own resources, but VAT-based resource has represented from the very beginning the true transfer from member states or their contributions. Therefore, traditional own resources belonged totally to the general budget of the European associations since 1971, but the VAT-based resources

8 Op. cit, pp. 369-373.

9 We talk about the year 1971 because the Treaty of Luxembourg concluded in 1970 started to be applied in the following 1971.

was only partly paid and it was in proportion to GNP.[10] Then in 1988 the fourth resource was added – GNP-based resource.[11] The inclusion of additional revenues was aimed at a balance between the revenues and expenditures of the general budget. However, it has become the main source of financing the European communities, in other words, the European Union.

It is also important to point out that the general correction mechanism became the integral part of the system of own revenues of the European Union in 1985. It is the mechanism aimed at improving the financial situation of Great Britain, which faced a negative position in the community budget, soon after joining the European communities[12]. There are several explanations. Firstly, the agricultural sector is relatively small in this country and its structure is significantly different from the agricultural sector of other member states. That is why the public spending in this sector of the British economy is significantly lower than the public spending of the other countries. Besides, the participation of Great Britain in the community VAT-based resources in relation to its participation in total spending of the Community budget – was far higher, which is why this country has become the biggest net donor of the resources to the Community budget.

These were attempts to solve the problem, but mainly with no effect. Therefore, in Dublin, in March 1975, the first mechanism was introduced and it is well known as 'powerful brakes'. This mechanism meant the limitations of the British contribution to the European community budget, providing the fulfillment of three criteria:

1) GDP per capita is lower by 85% than the average GDP in the EC;
2) The economic growth of Great Britain is lower by 120% than the average of the EC;
3) Participation in paying own resources to the EC budget is higher by 10% in relation to the participation of GDP.

As the simultaneous fulfillment of all three criteria never occurred, the solutions suggested by the Dublin Treaty had never been put into practice.

Another mechanism was also involved in Dublin in November 1979. This was again a very complex mechanism, which consisted of special measures which enabled that the payments of Great Britain that were supposed to be undertaken relate to the spending side of the budget of the European com-

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10 European Commission: E*uropean Union Public Finance,* p. 18.

11 This source of revenue has been introduced by the Decision of European Commission No. 88/376, adopted on June 24, 1988.

12 Great Britain signed the Agreement on joining the European Union in 1972. V. Vajdenfeld, V. Vesels, *Evropa od A do Š – priručnik za evropsku integraciju,* Konrad-Adenauer-Stiftung, Beograd, 2003

munities. Due to the complexity, the solutions suggested by this mechanism or previous ones have never been applied.[13]

The mechanism applied today, was introduced in Fontainebleau in 1984 and it was used for the first time in 1985. In accordance with it, there was a reduction in contribution of Great Britain to the EC budget to 66%. In order to compensate for the loss of revenues in the EC budget, created by such reduction in payments, other member states had to increase their share in the VAT-based resources. The exception was Germany, which first participated with one third and today it accounts for one fourth of total VAT-resources. The same concession was later given to another three member states: the Netherlands, Austria and Sweden. The reason was again a negative budget position in the Community budget.

The causes of the negative budget position in the Community budget were peculiar for each of the four countries. The negative budget position of Germany was the result of the fact that it was the country of a big economic power with relatively small agricultural sector, compared with the other member states of the European Union. Besides, Germany had a fast economic growth after its unity in the 1990s, so its negative budget position in the Community budget was becoming increasingly noticeable. The negative budget position of the Netherlands was a consequence of paying export duties in the places where the ports exist. These payments often did harm to Dutch citizens. Netherlands was also one of the biggest donors for the implementation of the programme of the Common Agricultural Policy while it was using a relatively small share of these resources.

Both Austria and Sweden, as relatively more prosperous member states, were big net donors to structural funds for the realization of the programmes of the Common Agricultural Policy.[14] The reasons stated above led to a situation that, soon after a decline in the German participation in financing the budget of the European Union, the decline in the participation of three other countries was required.

4. Current system of revenue sources in the European Union

The current system of financing the European Union consists of revenue collected from several sources – own resources of financing and other revenue. In accordance with the decision of the European Commission, own resources consist of traditional own revenues (customs duties and agricultural duties), resources based on VAT and GNP. Member states are obliged to trans-

[13] Annex IV: "The Budgetary Compensation for the United Kingdom", *Financing the European Union: Commission Report on the Operation of Own Resources System*, European Commission, Brussels, 1998

[14] More on Common Agricultural Policy can be found in: V. Grbić, "Agrarna politika Evropske unije", *Megatrend revija*, Vol. 2, No. 1, 2005, pp. 69-86.

fer 75% of the revenue collected from traditional own resources, whereas 25% remains in national budgets, which represents a kind of compensation for collection costs.[15] Such solution has been adopted because the European Union does not have the fiscal sovereignty; it exclusively belongs to member states, which are solely in charge with introduction and collection of taxes. However, it is important to say that all member states are obliged to transfer collected revenues to the budget of the European Union. In case they avoid so, they risk being sued and taken to the European Court of Justice, whose verdict as a rule contains very high fines for sued countries.[16]

Introducing general correction mechanism for Great Britain, a decrease in the participation of four member states in this mechanism, as well as financing the European Union mainly by the resources based on VAT and GNP, made the European Union financing system very complex and nontransparent. The characteristic thing is that the VAT-based resource is collected based on the so-called abstract, imagined and harmonised base of member states. The hypothetical VAT-base is calculated in order to diminish differences among national bases due to insufficient harmonisation of VAT-base on the level of the European Union. The hypothetical base for each member state is calculated if national VAT –based resources are divided by the burdened average rate, which is most often deduced from national accounts. It is important that the hypothetical VAT-base, when possible, is limited to 50% of GNP of the member state, in order to decrease the regressive nature of VAT. As a result, VAT-based resources turn into GNP-based resources in those countries where limitations are applied. Besides, the same rate of limited and harmonized VAT-base of all member states, the so-called binding rate, cannot excel the base of a single country by 0.5%.[17]

GNP-resources are collected at a single rate in proportion with GNP of the each member state. Unlike the VAT- resources, there is no special limiting mechanism – the only considered principle is that total own resources should not excel 1.24% of the GNP of the European Union.

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[15] Such distribution proportion was introduced by the 2000 Decision (2000/597/EC, Euroatom). Until then, the solution forecast by the 1994 Decision was applied (Council Decision on System of European Communities' Own Resources, 94/728/EC, Euroatom), that left the possibility for member countries to keep 10% of the collected resources.

[16] For example, such were decisions the European Court of Justice brought in trials against Greece, Spain, France, Denmark, etc. The last trial before the Court sentenced Denmark, which avoided transferring its customs revenue collected by levying peas imported from China. As it did not fulfil its duties, Denmark was fined 140,409,60 Danish crowns, which it is obliged to pay on the 'own resources' account of the European Union in addition to the interest rate for each day of delay.

[17] This rate has been used since 2004. Until then, the limitation line was changed every year, so it was 1% until 2002, and then was reduced to 0.75% in 2002 and 2003 and the next year it was even more restricted (to 0.5%). See: article 2, p. 4, (Council Decision of 29 September 2000 on System of European Communities' Own Resources, 2000/597/EC, Euroatom).

Besides the mentioned resources, the budget of the European Union also receives other revenue, such as fines, taxes on the activities carried out in the European economic area; interest for late payments; income taxes paid by EU staff; loans and borrowings; other undefined resources. Though there are many more resources in this group of income compared to the group of own resources within the European Union, it is characteristic that they bring very little revenue to the Community budget. It is the main reason why only own resources are mentioned as the source of financing the European Union.

Considering the characteristics of the current system of financing the European Union, the main conclusion is that there are many drawbacks; the financial dependence of the European Union on its member states is the most important one. Apart from that, the current system is very inefficient – the only true own resources are those traditional ones and they relate directly to the changes in relative prices on the market and to the policy of allocation. Therefore, the main sources of financing the European Union are VAT-based and GNP-based resources and that fact leads to the obvious conclusion that there is no direct connection between the budget of the European Union and its citizens. These are direct resources of the national budgets, transferred to the budget of the European Union. These resources do not affect relative price fluctuations or the company behaviour. A drawback of the current system is a significant lack of fairness among member states, which is the consequence of the introduction of a general compensatory mechanism for Great Britain and a decline in participation of four member states in payments based on the principle.[18]

5. The need for introducing new own resources of the EU budget

As the mentioned drawbacks seriously damage the EU budget financing system, there have been many suggestions for the introduction of new own resources of the European Union budget and they represent one of the potential solutions for the current crisis. [19] As the most lucrative fiscal revenues come from tax-based resources, these suggestions mostly concentrate on the introduction of new modification of current taxes. The most often demanded thing is that

18 *Financing the European Union: Commission Report on the Operation of Own Resources System*, pp. 5-10, and Commission of the European Communities, Technical Annex: *Financing the European Union: Commission Report on the Operation of Own Resources System*, Brussels, 2004, COM (2004) 505 final, Vol. II, pp. 8-13.

19 P. Cattoir, *Tax-based EU Own Resources: An Assessment*, European Commission, Working Paper No. 1, April 2004; Commission of the European Communities, Technical Annex: *Financing the European Union: Commission Report on the Operation of Own Resources System and European Commission*, Annex II: "A Review of Possible Own Resources for the European Union", *Financing the European Union*, Brussels, 1998.

the suggested resources meet more criteria, so that they may lead to establishing such a system of finance in which three essential economic functions – allocating, redistributive and stabilizing- could perform in the best possible ways.

5.1. Criteria for the introduction of new resources

As a rule, the introduction of new resources should follow these criteria:
- Providing sufficient resources;
- Stability;
- Visibility or transparency;
- Low operative (administrative) costs;
- Efficient allocation of resources;
- Equity

Then, we can classify these criteria into three essential groups:
- Budgetary principles (providing sufficient revenues and stability);
- Principles of efficiency (clarity, low operative costs and efficient resources allocation)
- Principles of fairness (horizontal and vertical, fairness and equity in contributions)

It is interesting that none of these suggestions can meet all the requirements. However, while bringing decisions on the introduction of new own resources of the EU budget, we have to take into account that they are to satisfy most or all the suggestions. Let us consider what each principle consists of.

5.1.1. Providing sufficient resources

New revenues should provide enough money to the EU budget to meet the Community long-term expenditure. In order to provide enough resources, it is possible to combine more taxes or one tax with other revenue (for instance, contributions or donations by member states). If the first option is accepted (combination of several taxes), it is important to consider such tax-based resources that are fruitful enough to finance the expenditures of the Union; the introduction of too ‘small’ taxes would only deepen the problem of the complex system of financing the European Union and its financial dependence on member states. Therefore, while considering the mentioned criteria, the whole system of financing the European Union should be taken into account instead of only one part.[20]

[20] Annex II: “A Review of Possible Own Resources for the European Union”, *Financing the European Union*, p. 3; P. Cattoir, *Tax-based EU Own Resources: An Assessment*, p. 8, and Technical Annex: *Financing the European Union: Commission Report on the Operation of Own Resources System*, p. 63.

5.1.2. Stability

Stability means that the European Union should have reliable sources of income, unresponsive to the cyclical changes in the economy. Taxes of the European Union should be stable and predictable, namely without unpredictable fluctuations (increases or decreases in payments). We should consider this principle, as well as previous one, with an idea of the whole system of financing the European Union and taking into account the averages during a year. The appearance of cyclical fluctuations of a particular resource is always possible, but the whole system of Community budget should be relatively stable. It further entails a relative stability of the whole system of financing the European Union and therefore, the increase in its financial independence.

As one of the so-called back options for establishing price stability, it is possible to introduce a residual source of income, whose role would become obvious in case there were sudden, bigger cycles in economic movements, caused by external factors (for instance, movements in those world's markets connected to the market of the European Union). The residual income would then automatically adjust the amount of total revenue and establish a balanced budget.[21]

5.1.3. Transparency

The principle of transparency consists of the established direct links among taxpayers (citizens of the European Union) and the budget of the European Union. This entails that the citizens of the European Union are conscious of the costs of financing the EU and they will be ready to pay taxes if the collected revenue is used to meet their needs for public goods and improvement of the total operation system of the European Union. This is the reason why we should treat transparency as "a group of all factors that contribute to raise consciousness of the citizens about the sum of collected taxes and final use of the collected means".[22] As citizens can "control the European Union whilst spending their money", transparency leads to a bigger responsibility of the Union regulators.

5.1.4. Low operative costs or cost efficiency

Cost efficiency means that costs of collecting EU budget revenue are lower or at least equal to the collected means. Therefore, not only administrative but also operative costs are taken into account, as well as the collection costs. Collection costs or the costs that tax payers bear when they fulfil their obligations

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21 P. Cattoir, *Tax-based European Union Own Resources: An Assessment*, p. 8, and Technical Annex*: Financing the European Union: Commission Report on the Operation of Own Resources System*, p. 64.

22 P. Cattoir, *Tax-based EU Own Resources: An Assessment*, p. 9.

should be lower than the other costs of tax payers. Administrative expenditures are costs that the state authorities bear whilst collecting taxes, whereas operative costs are made during the process of inclusion or implementation of a particular tax into the total revenue scheme. These costs vary depending on whether the implementation relates to the appearance of certain externalities or 'regional arbitrariness', i.e. self-will.

The appearance of externalities usually relates to a situation in which the effects of collecting some revenue or taking some measures surpass the boundaries of a locality. However, within the context of the European Union, the phenomenon of externalities appear when these effects go over the boundaries of a state and produce certain consequences in the neighboring country(ies).[23] It means that if taxation introduced by the authorities in one country affects the behaviour of physical or legal entities not only in their own but also in its neighbouring countries, then, the introduction and collection of that taw should be carried out by higher-level authorities, in other words, at the level of the European Union.

As a rule, the phenomenon of regional arbitrariness is related to the situation when it is impossible to establish the tax base in an appropriate way or when the money collected in certain locality is arbitrarily distributed. Within the context of the European Union, regional arbitrariness applies when it is difficult or impossible to define precisely the share of the tax base to ascribe to each country. This is particularly the case with the distribution of customs revenues, i.e. common external customs tariffs. It is important to determine the very complex rules of tax distribution and their attachment to the higher-level authorities in order to avoid such problems.[24]

5.1.5. Efficient allocation of expenditure

This principle represents a request that tax should not affect the structure of prices in the economy, or the behaviour of a company. However, the European Union taxes can affect internal markets of member states if it is necessary to harmonise tax bases of certain national taxes. In case of the spillover of the effects go over the state boundaries and limited coordination of tax policies of member states, it is possible to enlarge the influence of activity and tax policy undertaken by the Union, using the European Union taxation scheme. [25]

23 On externalities: S. Stojanović, *Fiskalni federalizam*, pp. 34-40.

24 Technical Annex: *Financing the European Union: Commission Report on the Operation of own Resources System*, pp. 63-64, and Annex II: "A Review of Possible Own Resources for the European Union", *Financing the European Union*, p. 1, 2.

25 P. Cattoir, *Tax-based European Union Own Resources: An Assessment*, p. 10, and Technical Annex: *Financing the European Union: Commission Report on the Operation of Own Resources System*, p. 63, 64.

5.1.6. Equity

We can observe equity from two perspectives – horizontal and vertical equity, and payments equity. As a rule, the first two forms of equity exist at the level of an individual, whereas the third form relates to the national level or the level of the member state of the European Union. Whereas horizontal equity means that the citizens of the same economic power should bear equal tax burden, vertical equity means that individuals of different economic power should have different treatment in the process of taxation, i.e. the richer should pay higher taxes, the poorer lower taxes. [26] However, in the context of the European Union, horizontal equity means that the implementation of the Community budget equally affects taxpayers in different member states. Vertical equity relates to the distribution of income among individuals. Collecting community taxes should provide sufficient revenues for the implementation of an equitable redistributive policy, which would entail that the poorer citizens would have smaller tax burden than the richer ones.

However, in the context of the European Union, speaking about equity, we should consider contributions that member states pay to the budget of the European Union, in accordance with their economic power. These contributions do not have the connotation of general transfer, but part of income collected in a particular country, which is transferred to the European Union. Every member country contributes to the EU budget financing system in accordance with its economic strength, which means several countries transfer more and other transfer less.[27]

5.2. Possible own resources

Considering how necessary it is to meet the criteria mentioned above, there were nine suggestions made in recent years for the introduction of new taxes for the budget of the European Union. This article will present characteristics and range for each of these.

5.2.1. Double rate VAT ('adjusted VAT')

One of the suggestions for introducing new taxes of the European Union bases on consumption taxes. This is called double rate VAT – one that is applied

[26] D. Popović, *Nauka o porezima i poresko pravo*, COLPI, Budimpešta, and "Savremena administracija", Beograd, 1997, p. 291 and 294-298; and S. Stojanović, *Fiskalni federalizam*, pp. 65-67.

[27] Annex II: "A Review of Possible Own Resources for the European Union", *Financing the European Union*, p. 2, 3, and P. Cattoir, *Tax-based European Union Own Resources: An Assessment*, p. 12.

on the national level and the other applied on the level of the European Union. This combined tax rate would not lead to the increase in tax burden for the citizens of the European Union, as the VAT rate in the European Union would be deducted from the national VAT rate. Therefore, citizens of the European Union would be paying taxes to the Community budget and budget of their own country as well, which would enable a closer connection between tax payers and the Union, which would then lead to an increase in visibility and transparency of the whole income system in the Union.

A suggestion for double rate VAT introduction is justified by the fact that this resource might exchange the existing third and fourth source of financing the EU budget (resources based on VAT and GNP).

There is a general belief that collection of the so-called VAT-based resource could provide enough resources for financing the expenditure of the European Union budget. A new source of income would be based on the income that already exists in the finance system of the Union and the finance system of member states. It would also contribute to an increase in transparency of the Community budget and visibility of the connection between tax paid and consumption.

However, besides many advantages, this suggestion also has certain drawbacks. The starting point is usually the idea that applying VAT system with double rate would lead to an increase in unfairness among member states. In case some member states tax the trade of certain goods by zero rate of VAT, whereas in other countries, such trade is not subject to taxation or tax rate is very low, there would be many difficulties in the attempt to collect any tax on the level of the Union, which could affect decrease in the national rate. The rate would still be zero, but it would mean that taxation on trade of these goods would not bring any revenue.

Another drawback this suggestion suffers from is the harmonization of the VAT-base in member states. In the existing system, VAT rates are quite congruous, but there are still certain differences, mainly because in some cases the countries give a possibility of deducting some costs from the tax base.

A huge drawback is also the sector of grey economy, particularly noticeable in some countries, because it leads to tax unfairness among member states. Developed grey economy means that a large part of costs are not subject to taxation at all, which is why the VAT-resources are lower than expected and consequently the contributions from member states to the budget of the European Union are lower.

Considering the mentioned drawbacks, if the suggestion for introducing VAT with combined rate is accepted, it will be necessary to undertake measures that would lead to a fair taxation treatment among member states. This would further entail a removal of zero rates from the national VAT systems and differences among national tax bases that are a consequence of exclusion. The removal or at least partial decrease in the sector of grey economy in certain countries would significantly contribute to the advancement of tax fairness.[28]

5.2.2. Corporate income tax

There are suggestions considered few times for introducing corporate income tax as own resource of the European Union budget. Therefore, the European Company Statute introduced in 2001 significantly affected the simplification of work in companies that have activities in more than one member state. The same year the Communication on Tax Policy[29], which emphasized the need for harmonization of corporate income tax base in member states, was adopted. Both acts stress the importance of corporate income for a proper operation of the internal market and underline that an all-inclusive approach to company taxation can eliminate current tax obstacles. Differences in tax bases come from the fact member states treat differently the business activities, which only accentuates inequality and provides chances of frequent tax evasion. The member states adopted the Communication on Company Taxation[30] as well as the Study on Company Taxation in Internal Market[31] in 2001. Both acts stress the importance of corporate income tax for smooth functioning of internal market of the Union and that general approach to the taxation of corporations could eliminate the existing tax obstacles.[32]

The main grounds for the introduction of corporate income taxes as own resources of the European Union are fulfilled principles of efficiency and horizontal equity. Efficiency would be satisfied if all the companies in the European Union were subject to the same tax burden. That would lead to significant cuts in administrative costs of paying taxes by all the companies in the Union. Business activities would also be simplified, and it would be possible to have proper operation of the internal market of the European Union and investments in those areas likely to achieve significant profits.

However, applying corporate income taxes as own resources of the European Union is suffering certain drawbacks. The biggest problem is a large gap in taxation treatment of business activities in member states, so there is always a possibility of tax evasion. Therefore, if it was accepted that corporate income tax belongs to own resources of the European Union, the first thing that should be done is to provide the same taxation system of business activity eve-

[28] P. Cattoir, *Tax-based EU Own Resources: An Assessment*, p. 14-16, and Annex II: "A Review of Possible Own Resources for the European Union", *Financing the European Union*, pp. 7-9.

[29] *Communication on Tax Policy* (COM (2001) 260)

[30] *Communication on Company Taxation* (COM (2001) 582)

[31] *Study on Company Taxation in Internal Market* (SEC (2001) 1681)

[32] P. Cattoir, op. cit, p. 17

rywhere. This would significantly contribute to an increase in horizontal tax equity but the achievement of vertical equity would face certain problems; this relates closely to the fact that the member states implement corporate income tax as after deduction tax on dividends and owners of private capital.

The problem we should consider is that the harmonization of tax bases would not connect to the introduction of national taxes, which would then lead to significant administrative expenditures and many political obstacles. The problem of regional arbitrariness would become more serious as well, as it would be very difficult to determine revenues obtained by the tax collection and transfer from member states.

Another very important drawback is related to the economic cycles. Business activities are very sensitive to economic cycles. Each change in economic activity significantly affects the level of productivity in companies and thus the amount of resources earned by the collection of corporate income tax. That is why there would be years with significant income made by corporate income taxation, but also years with very low income from this source.

Besides the above drawbacks, we should emphasise that direct links between citizens (tax payers) and budget is broken at taxation on company income. Tax duty is obvious only for company owners, so that it does not affect the increase in responsibility of those who are in charge of regulations and tax implementation.[33]

As reasons against company income tax introduction are far more powerful compared to the reasons in favour of it, other tax forms are considered to be possible own resources of the EU budget.

5.2.3. Personal income tax

The idea of personal income tax as own resources of the European Union bases in the application of one out of three possible solutions: (1) introduction of *per capita* tax for all the citizens of the European Union; (2) introduction of surtax on national taxes; (3) introduction of community tax in addition to national income tax. The first option seems to offer most advantages. *Per capita* tax would be compatible with the criteria of visibility, simplicity and efficiency. The third option (independent taxation on the European Union) would also contribute to the fulfilment of simplicity and low operative costs, but it would significantly damage rightness (especially vertical rightness) because taxpayers in all member states would be equally taxed, no matter what their economic power was. The other option (surtax on the national tax) would lead

[33] Annex II: "A Review of Possible Own Resources for the European Union", *Financing the European Union*, pp. 12-16, and P. Cattoir, *Tax-based EU Own Resources: An Assessment*, pp. 16-20.

to a decline in rightness (this time-horizontal rightness) and creation of large administrative and operative costs.[34]

Considering all three options, there is a general conclusion that the introduction of income tax as own resource of the European Union means certain advantages, but there are also many drawbacks. One of the drawbacks is that it is a very visible tax, as it enables the most direct and visible connection between taxpayers (the citizens of the Union) and the budget of the Union. The very visibility of taxes significantly improves the responsibility of people in charge. Besides, the inclusion of this tax does not produce externalities, which means that the national tax authorities can collect it and then transfer to the Union. Income tax also contributes to an increase in horizontal equity because taxpayers in all member states have the same tax base and pay the same taxes. However, it involves damaging vertical equity – citizens pay tax regardless their economic power and the level of economic development of member states (some members of the European Union are economically stronger, whereas others are weaker). Another drawback is transparent through the negative influence on redistributive policy, as the redistribution of income will mainly burden earned income, or wages. As taxes would be collected by the national authorities and then transferred to the Union, there would be high administrative and operational costs and collection costs. High visibility of tax liabilities is also facing numerous political obstacles: politicians are always more ready to vote for not so visible revenues, because it means it is not obvious if they have higher responsibilities towards voters (taxpayers).

However, despite significant reasons against the introduction of income tax as own resource of the European Union, it is important that any such tax may bring significant income to the community budget.[35]

5.2.4. Taxation on energy resources

Taxation on energy resources as a source of financing the budget of the European Union bases on the existence of more options. Some suggestions start with the introduction of tax on motor oil used for road transport and oil used in air transport, or the emissions caused by air transport. Other suggestions base on the introduction of taxes with very broad tax bases (all energy resources would be levied, such as mineral oil, electricity, coal and natural gas) or on the introduction of only levy on motor oil for road transport.[36] All these suggestions mostly start from the solutions offered by the Directive of the Council of Europe on taxation on energetic products and electricity

[34] P. Cattoir, *Tax-based EU Own Resources: An Assessment*, p. 30, 31.

[35] Annex II: "A Review of Possible Own Resources for the European Union", *Financing the European Union,* p. 18, 19, and P. Cattoir, *Tax-based EU Own Resources: An Assessment*, pp. 30-33.

[36] P. Cattoir, *Tax-based EU Own Resources: An Assessment*, p. 20, 21.

[37], which are in direct connection with climate changes and serious hostility towards the environment due to use of some energetic resources. That is why a decrease in pollution and internalization of negative emissions are the strongest arguments for energy taxation. That would be a very noticeable move at the same time: fuel taxation would create a direct link between taxpayers, their benefit and the environment. The harmonization of tax rates all over the country would contribute to a better allocation of resources and therefore a better allocation of transport activities and decline in pollution. As tax payers in all member states would be equally burdened by taxes, this form of taxation would be significant for horizontal equity, but it would also do harm to vertical equity, because in some cases, poorer citizens would be more burdened with taxes (in case of levies on fuels used for heating). Taxation on fuels is based on the argument of efficiency and stability. As energy products are widely used in all countries of the European Union, and the fact they are relatively insensitive to the changes in prices in internal markets, this form of taxation would bring significant revenue to the community budget.

However, taxation on fuels faces many drawbacks. The significant drawback is certainly related to tax transparency – as the public is very sensitive to the issues of fuels and pollution, the introduction of such tax would be subject to many public debates and may not lead to the expected results. Besides, climate changes and the environment conditions are not the same in all member states, and may cause large differences in the size of income transferred to the budget of the European Union by different countries. [38]

5.2.5. Excise duties on tobacco and alcohol

One suggestion on the introduction of new resource for the European Union budget is taxation on consumption through individual taxes or excises. It is mostly the consumption of tobacco and alcohol[39], but there are also suggestions extending to taxation on mineral oil consumption[40]. Differences in these taxes are important regarding tax base and objectives attained by taxation. Therefore, excises on mineral oil are important for the policy of envi-

[37] *Council Directive 2003/96/EC of 27 October 2003: Restructuring the Community Framework for the Taxation on Energy Products and Electricity*. This Directive regulates many questions related to taxation on different energy sources (mineral oil, electricity, coal and natural gas).

[38] Annex II: "A Review of Possible Own Resources for the European Union", *Financing the European Union,* pp. 4-7; P. Cattoir, *Tax-based EU Own Resources: An Assessment*, pp. 20-23, and Technical Annex: *Financing the European Union: Commission Report on the Operation of Own Resources System*, pp. 47-51.

[39] P. Cattoir, *Tax-based EU Own Resources: An Assessment*, pp. 23-25.

[40] Annex II: "A Review of Possible Own Resources for the European Union", *Financing the European Union*, pp. 10-12.

ronmental protection, as they represent a kind of fines for polluters. However, excises on tobacco and alcohol impose a burden only on a narrow group of consumers (smokers and alcohol consumers). Besides, in some member states tobacco and alcohol consumption is very low whereas it is very high in the others. Such differences create different revenues in member states and therefore different payments to the budget of the European Union. Different taxation treatment of tobacco and alcohol consumption leads to different treatment of taxpayers and does harm to taxation equity. The fact further means that the suggestion for the introduction of excises as own resources of the European Union is very regressive both for member states and their citizens (tax payers). Another obstacle is a difficulty to harmonize tax bases all over the European Union, which gives the wide opportunity for tax evasion and tax avoidance. Differences in tax bases lead also to significantly larger administrative expenditures and collection cost of other own resources.

However, despite many drawbacks, excises on tobacco and alcohol would have many advantages as own resources of the European Union. A significant advantage is a very noticeable connection between tax liabilities and benefits payers have from paying taxes. Overall, these are relatively stable sources of income, as they are more or less insensitive to the changes in alcohol and tobacco prices in the international markets.[41] As a result, though the tax base is relatively narrow, collection of these taxes could provide significant resources.

5.2.6. Tax on communications

Suggestions for the introduction of taxes on communications as own resources of the European Union budget include three communications services: telephone service, road transport and air transport. One of the suggestions is also the introduction of compensation for air transport, because of environmental protection, since the use of planes relates to many negative emissions and creation of the greenhouse effect.[42] In case of the telephone service, phone line tax could be levied; road tax can be levied as vehicle tax, whereas air tax might be introduced, as per capita tax on travelers. Road and air transport taxes are particularly important for the environmental protection. All three-tax forms satisfy the criterion of visibility, as tax liabilities would be shown on bills (phone service bills, air tickets and toll- road tickets on national and international roads). Besides, such taxation would enable the creation of horizontal and vertical equity: horizontal equity would be possible because taxpayers in all countries would have the same treatment, whereas vertical equity would be also possible for the use of these services increases with the increase

[41] National excise rate often changes, which is closely related to the inflation rate in particular countries.

[42] P. Cattoir, *Tax-based EU Own Resources: An Assessment*, pp. 34-37.

in the economic power of taxpayers. The advantage is also a very little space for tax evasion or tax avoidance. Namely, taxation on air transport and phone service would be collected by the operators, whereas tax on road transport would be collected by national taxation authorities. In addition, taxation on communications could provide significant revenue for the community budget, as the use of these services is very widespread all over the European Union.

However, the introduction of tax on communications as own resources of the European Union suffers from certain disadvantages. Firstly, it would be necessary to introduce a very new source of revenue. It further means both significant administrative and operative costs, as well as collection costs. A significant drawback is also the fact that, although taxes on communications might bring significant revenues, they would not be sufficient to cover all the expenses related to their implementation and collection.

5.2.7. Tax on financial transactions

Taxation on financial transactions starts from the introduction of tax levies on those transactions made through the stock markets all over the European Union. These are mainly transactions in stocks and bonds. Tax base could present transaction value, whereas taxpayers could be either operators or state organs on stock exchanges. In that case, taxation could be easily implemented. The introduction of such tax would be in accordance with vertical equity, as tax liabilities would burden only rich people who participate on stock exchanges. However, the introduction of tax on stock exchange transactions is facing many drawbacks. Introducing any, even a very small tax burden, would significantly affect a decline in financial transactions on the stock exchanges all over the European Union. That is why such resources would lead to instability and impossibility to predict the amount that might be collected. Stock and bond markets can be very unstable and often influenced by many factors, not only economical but also political, technological, etc. On the other hand, if the tax rate were very low, taxation on financial transactions would not make enough revenues even for partial financing the budget of the European Union. Another important drawback is the invisibility of such tax form, which makes politicians always ready to vote for its introduction, and that brings further political difficulties. Taxation on financial transactions spoils the horizontal taxation equity: the investors of similar economic power would suffer different tax burden because member states apply different taxation treatment of financial transactions.[43]

[43] Ibid, p. 33, 34.

5.2.8. After deduction interest tax

Certain suggestions for the introduction of a new own resource of the EU budget rely on the introduction of after deduction interest tax. The starting point is that there should be minimal taxation of interest, as an income paid on capital in one member state to a user in another member state. The tax would be paid only by non-residents gaining some benefit or interest in any member state. The reason for such suggestion is the current income scheme for non-residents to earn profits in member states of the Union. Namely, in some countries deduction taxes are not collected at all (Luxembourg, the Netherlands, Denmark); in other countries non-residents do not pay after deduction interest tax (Belgium, Austria, Finland and Sweden); in all other member states of the European Union, the tax is paid by both residents and non-residents. As a result, tax evasion often appears in transactions all over the European Union. That is why the introduction of such tax scheme would have significant role in preventing or at least reduction of illegal transactions. From the perspective of economic efficiency, if higher authorities were in charge of tax collection (in this case, Union), differences in national tax treatment of interest rates in member states would be significantly smaller, which would further prevent unfair tax competition among national tax systems. Introduction of such taxation is in accordance with the principle of visibility but the problem lies in the fact that tax liabilities would be visible only for the narrow circle of taxpayers.[44]

Considering both positive and negative sides of the suggestion for the introduction of tax after interest deduction, one can say that arguments against the adoption of this suggestion are stronger. The after deduction interest tax is not harmonized with the principle of equity, especially horizontal equity. Capital is extremely mobile especially over national boarders; besides, the level of savings depends upon the level f income, so the introduction of such tax would have negative influence on capital mobility within the European Union. Therefore, it would not contribute much to the prevention of unfair tax competition among member states, as it was the first assumption. A drawback is also the fact that not so stable tax form has been taken into account, as economic activities with their different stages significantly affect interest income. Due to all this, collection of after deduction interest tax could not provide enough resources for financing the whole EU budget.

5.2.9. Tax on revenue transfer of national central banks

Introduction of the tax on revenue transfer of national central banks bases mostly on the fact that most member states of the European Union have single

44 Annex II: "A Review of Possible Own Resources for the European Union", *Financing the European Union,* pp. 20-22.

currency – euro, so the money circulates freely all along the Union. Therefore, it represents public good for all member states and revenue from its circulation should belong to the higher level of authority, i.e. to the European Central Bank. It is possible to believe that the introduction of such tax could bring significant contribution to the community budget, as it is resource relatively easy to administrate and it does not require significant costs or tax paying facility costs. The explanation lies in the fact that only national central banks would have the role of taxpayers. This means that there would practically be no possibility for tax evasion, but on the other hand, the tax would be visible only for a small group of taxpayers (national central banks) but not for all the citizens of the European Union. This kind of taxation partly meets the criterion of vertical equity, as task base has been harmonised and is uniform for all member states belonging to the European Monetary Union.

However, since transfer of central banks income would have very restricted or no influence on the redistribution of income in the European Union, it is possible to claim that the criterion of vertical equity would not be totally fulfilled. Although the introduction of such tax would mean also transfers from national budgets to the community budget, it still would not lead to additional burden for member states, as sum of national contributions to the budget of the European Union would be reduced by the amount transferred from central banks.

One should take into account that although the introduction of such tax form could bring significant resources for the EU budget, it is a very questionable suggestion, especially in the long run.[45] As tax liabilities are visible, only for a small group of taxpayers (national central banks) the tax would have very limited influence on the responsibility of the EURO authorities, so it would not meet the principle of efficiency. However, this suggestion is acceptable from the political point of view.

Another disadvantage is the fact that tax on transfer of national central banks income can produce deficit in treasuries of some national central banks, which directly concerns the differences between income and expenditure that national central banks have.[46]

5.3. Assessment of suggested resources

In view of each form of suggested resources, it can be said that double rate of VAT and income tax represent the best 'candidates' that might provide most

[45] Revenue estimated by nataional banks can be relatively unstable in the short term and very sensitive to economic cycles, but in the field of evrozone, such instability is possible in the long term.

[46] P. Cattoir, *Tax-based EU Own Resources: An Assessment*, pp. 25-27, and Annex II: "A Review of Possible Own Resources for the European Union", *Financing the European Union*, pp. 22-24.

revenue for the EURO budget, mainly meeting most criteria. First of all, they meet the most important principles. i.e. budgetary principles of sufficiency and stability. The principle of sufficiency entails that own resources are supposed to provide enough income to finance the expenditure of the community budget. Besides VAT and income revenue, taxation on energy resources provides significant revenue. However, it is important that these resources cannot separately cover the budgetary expenditure, but this is best attained by their combination. Apart from own resources, other resources should be included in the financing activities of the EU budget, such as contributions from member states but also revenue from other sources.

The three mentioned revenue sources but also excise on tobacco and alcohol satisfy the second budgetary principle, the principle of equilibrium. All other suggestions provide stable revenue source to a smaller extent and more or less, they respond to cyclical changes in economy.

In view of the principle of efficiency, it can be said that demand for 'visibility' is best satisfied by double rate VAT and personal income tax. Other suggested resources also meet this criterion, though far less. The only inefficient one would be the taxation on transfer of national central banks income and financial transaction, as implementation and collection costs would be incomparably higher than the collected amount. Efficient allocation of resources is mostly enabled by corporate income tax, tax on energy resources and tax on air transport, collected due to provoked climate changes. However, tax on financial transaction and tax on communications can also influence an efficient allocation of resources, mainly the allocation of capital and investments in the EU countries.

The final group of principles – principles of equity could be observed from the aspect of vertical equity and equitable contributions. Horizontal equity cannot be provided by any of the suggested resources, for it would mean a harmonisation of the tax base in member states and this is still not possible to attain for many reasons (economic reasons, political reasons, etc.). Taxation on communications services, taxation on financial transactions and taxes on air transport would lead to vertical equity in great deal. Such tax burden is mostly on the rich, in accordance with vertical equity – the principle that citizens of stronger economic power should pay higher taxes, whereas citizens of weaker economic power should pay lower taxes. Tax on communications, tax on air transport and personal income tax satisfy mostly the demand for equitable contributions whereas excises on tobacco and alcohol are against this principle, as in some member states these products are widely used while other member states forbid strictly their use, especially in public places.

6. Conclusion

Considering a very complex character of the relationship between the European Union and its member states, as well as the nature of the European Union as a supranational organization, there have been various suggestions about its finances. As the EU financing system has become very complex, non-transparent and extensive, the issue of searching for the so called additional own resources is even more acute. It is generally believed that the financing system should be transparent and efficient and enable direct link between the EU budget and its citizens or taxpayers. All this would lead to an increase in political responsibility of those in charge of adoption and implementation of the budget, therefore to an increase in the EU budgetary discipline. Certain criteria that should be fulfilled have been established and there have been several suggestions for new own resources. However, it is interesting that none of the suggested types of tax is sufficient to meet all criteria; each suggestion has its own pros and cons. There is no perfect tax to provide enough means for financing all budgetary expenditure of the European Union. What needs to do is to combine all these suggestions in addition to some already existing resources (e.g. contributions from member states). This is the fact that the creators of budgetary and financial system of the European Union should not ignore whilst deciding on the future financing system. That is why one cannot estimate the fulfillment of the above criteria by observing individual revenues, but considering them all as a totality. As political factors naturally significantly influence each decision-making process, financing decisions as well, it is always likely that the creation of financing system suits political aims, though it may be far away from the principles that are supposed to contribute to budgetary discipline.

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THE BALKAN REGION, EUROPEAN UNION AND RUSSIA – ECONOMIC INTERESTS OF COOPERATION

Abstract: *Cooperation with European Union and Russia in the field of energy transfer of huge importance for all Balkans states. These countries have realistic opportunity to grow in transit centers that could serve for oil transport from Russia and Caspian Sea Region to West European markets. The energy import needs of Western Europe are key economic cause why the accession of Balkans states has become a strategic choice of the European Union. This fact is also of key importance for understanding economic dimensions of modern Russian economic policy.*

Key words: *Balkans, European Union, energy transfer, pipeline, gas line.*

1. Introduction

Several years of wars, caused by dissolution of former Yugoslavia, have so fundamentally changed the geopolitical shape of the Balkan region, that the very notion *Balkans* became less adequate to new realities, being replaced by *South-Eastern Europe*. The deep Yugoslav crisis has broken out in a former communist state, moreover, in a state where the national-communist leadership activity became in the early 1990's the main cause of contradictions between the former union republics. The Yugoslav wars have also provoked a crisis of Balkan regional order, having been a severe test for European institutions, as well. It is clear now, that the unpreparedness of European structures contributed to the Yugoslav tragedy accomplishment. The following events have in turn essentially impacted upon the processes of European policy.

The Yugoslav conflict has also seriously tested relations between Russia and the West and has become one of the substantial issues around which a new policy orientation of Russian Federation has been shaped. In conformity with American expert Robert Craig Nation opinion, the Balkan crisis has become a forge within which new patterns of relations between Russia and the West are being formed[1]. But the inflection of Russian foreign policy after 1993 because of nationalistic opposition pressure has led to Russia's effective marginalization in the region with the imposition of the NATO-led Dayton peace process. The whole situation has had disturbing implications that have been only partially offset by the limited cooperation achieved in the context of the NATO-sponsored Implementation forces in Bosnia and later in Kosovo (IFOR and KFOR).

The Balkan crisis have for a time redirected the American strategic agenda in Europe, as well. Many American politicians and policymakers supposed that too much has been perceived to be at stake in connection with the Balkan crisis: the future of NATO, US leadership in Europe, the image of America in both Europe and Islamic Middle East, the evolution of peace operations as a component of the international security agenda and the risk of an open-ended conflict spilling over the Balkan region as impacting upon neighboring areas. That has been one of the reasons for the EU increasing engagement in the Balkan crisis issues.

Contemporary stage of the crisis situation in the Balkan region is characterized by conserving several predominantly dangerous zones:

- Kosovo, including the problem of coexistence of Serbian and Albanian population and especially the future status of the province;
- Macedonia, taking into consideration presence of a large Albanian minority, what complicate the Macedonian-Albanian relations;
- Bosnia, as an eventual source of crisis;
- Montenegro – the tensions in relations with Serbia in a framework of the Serbia-Montenegro commonwealth
- Albania, taking into consideration her although hidden intensions to protect Albanian national minorities in all the neighboring countries.

The Northern part of the Balkan region including Slovenia, Croatia and partially Bosnia-Herzegovina could be considered as relatively quiet, stabilized and now preparing to adopt Western alliances system – EU and NATO. The South of the Balkan Peninsula has now all possibilities to reconciliation, having in mind the Greek peaceful initiatives in context the Greek-Turkish relations. It is also worth to mention that Greece – the only EU and NATO member in the region – made several attempts to mediate in the Balkan conflicts: between the Serbs and Croats, Serbs and Montenegrins, Serbs and Albanians. By the way, its own relations with its northern neighbor – Macedonia are for a long time ambiguous because of bilateral dispute in connection with the title of this country.

1 R. Craig Nation, "Peacekeeping in Bosnia-Herzegovina: Lessons and Prospects", *The Yugoslav Coflict and its Implications for International Relations*, Ravenna: Longo Editore, 1998, p. 43.

2. South Eastern Europe as the European Union strategic choice

One of the main reasons of new created situation is coming to light the increasing lack of balance of power in current Balkan and European relations.

The researchers of contemporary international relations affirm that the Balkans are on the way of losing their regional political autonomy, which was created in the late 1980-s on the ground of multilateral cooperation[2]. The results of armed conflict 1999 in Yugoslavia, on one hand, and the obvious intention of majority Balkan states to join NATO and EU, on the other, create situation, in which South-Eastern part of Europe looses its identity and gradually becomes a geopolitical sphere of NATO and EU control and supremacy.

The joining to European world seems to be attractive, having, of course, a number of advantages. But the process of majority Balkan states integration into European Union structures will be not so easy and prompt, as it was earlier supposed.

Since the end of the Cold War, the European Union has faced the essential dilemma of where its final borders should be set. According to the Treaty of Rome any European country can join the EU (at that time EEC and than EC). But when the geographical definition of Europe became more uncertain, setting limits to EU membership is consequently problematic. The history of post-Cold War between the EU and its non-EU European neighbors can be read largely as a history of the EU coping with the inclusion/exclusion dilemma, determined by non-equal possibilities of the applicants, the number of which is growing[3]. Among them eight of Balkan countries: Bulgaria and Romania can join EU in 2007; Croatia, Macedonia and Turkey could became membership negotiations; the remaining countries of the Western Balkans (Albania, Bosnia – Herzegovina and Serbia – Montenegro) have been promised membership, when they met respective conditions.

In connection with the Balkan countries membership in the United Europe arise some important questions, posed by Italian researcher Marco Riccieri. First, is there a future for the Balkans out of European perspective? Second, can it be on the other hand a favorable decision of European problems, if Europe continued to be an incomplete continent? Third, does the confluence of remarkable strategic interests both of EU and Russia exist or not in the Balkans? [4] For to clarify the mentioned problems, if only partially, it is

2 S. Larrabee, "Long Memories and short Fuses: Change and Instability in the Balkans", *International Security*, Vol. 15, No. 3, Winter 1990/91, p. 59.

3 K. E. Smith, "The outsiders: the European neighborhood policy", *International Affairs*, Vol. 81, No. 4, 2005, p. 757.

4 М. Риччери, "Евросоюз и Балканский регионю", *Современная Европа*, No. 26, 2005, pp. 52-53.

necessary to understand the real situation, which marked relations between the EU and the Balkan states beginning from the middle 1990's and after.

In 1996 the EU Council adopted a Regional Approach to the countries of South-Eastern Europe, establishing a coherent and transparent policy towards the development of relations with Bosnia and Herzegovina (after Dayton agreements), Croatia, the Federal Republic of Yugoslavia (before the Kosovo crisis), the Former Yugoslav Republic of Macedonia, and Albania. In April 1997 the EU Council established political and economic conditions for the development of bilateral relations and the granting of some forms of assistance. And only in June 1999, immediate after the end of the NATO military operations against FRY, the Regional Approach was developed into the EU Stabilization and Association Process (S.A.P.) for countries of South-Eastern Europe.

Within the framework of the Regional Approach – and after – the EU Stabilization and Association process certain conditions apply to the development of bilateral relations in the field of trade, financial assistance and economic cooperation. There are *general conditions* – applying to all five countries in the areas of democratic reforms, respect for the human and minority rights, return of refugees and displaced persons economic reforms and regional cooperation – and *specific conditions,* which provide obligations arising under international peace agreements: Dayton/Paris and the Peace Implementation Councils in the case of Bosnia-Herzegovina; Dayton/Paris and Erdut in the case of Croatia; Dayton/Paris, Erdut and the United Nations Security Council Resolution 1244 in the case of FRY (Serbia and Montenegro).[5]

Practical implementation of the mentioned agreements presupposes three basic directions of cooperation: political collaboration, different forms of economic support and common actions for peace and security maintenance.

European Community, in accordance with the documents adopted by the Thessaloniki session of European Council (June 19-20 2003), has the aim: to assure necessary support to the initiatives of institutional building taken by Balkan countries; to contribute to their economic growth by promoting the export possibilities; to offer access to some community programs. The special Agency for the Reconstruction of the Balkans within the S.A.P. was assigned for the coordination of EU activities in the whole region. Within the programs of economic help and assistance a special function belongs to the project C.A.R.D.S (Community Assistance for Reconstruction, Development and Stabilization), the most large-scale project of economic help in the history of European Community. Starting from the 1990's, the EU has put up in the various Balkan programs about 6 billion euros, to 2010 the sum will reach, according to preliminary forecasts, 10 billion euros.[6]

5 *EU Stabilisation and Association Process for Countries of South-Eastern Europe. Compliance with the Council Conclusions of 29 April 1997& 21/22June 1999*, European Comission, Directorate General External Relations, Brussels, January 31st 2000, SEC, 2000, p. 168.

6 М. Риччери, op. cit., pp. 53-54.

Economic activities in the Balkan region have to be supported by necessary security and peace-keeping measures, provided by the adopted in October 2004 European Constitution. The first experience of EU armed forces presence has been in 2002, when the EU military mission took over from NATO in the Former Yugoslav Republic Macedonia, later it has assumed place in Bosnia and Herzegovina. In this direction goes the EU decision to replace all the NATO armed forces in the Balkans by so called EUROCORPS. Cooperation between the European Union and NATO takes place in accordance with a package of arrangements known as "Berlin Plus". Taken together with the economic and political measures, these activities confirm the EU strategic choice to strengthen its influence and presence in the South-Eastern Europe.

3. Balkans economic realities in light of the EU enlargement

The real situation, however, shows that to reach a decision is much easier then to introduce it in practice. European leaders are now faced with the fundamental questions of EU practical enlargement – with whom the European Union should enlarge, under what conditions at what speed and related questions – was one of the items on agenda of the European Council session in December 2005, concluding the British EU presidency.[7] The concrete question concerned Macedonia: should Council members endorse recommendations of the EU Commission to accept the tiny Western Balkan country as a candidate for EU membership? Finally it was decided to adopt, but a still larger, more critical question concerns the EU ability to pursue its policy of enlargement, recognized by the majority of observers as the EU successful contribution to peace and stability in Europe, even in times of internal difficulties.

European Council also recognized that there are in the Western Balkan region towering challenges, increasingly for the EU as the main actor in the region, in the Kosovo scene and the possible drama surrounding the status negotiations[8]. The factor which keeps the enlargement back are also the slowly changes in the model of economic transition and development. Chronic unemployment in the Western Balkan countries is undermining stability and possibilities of EU membership, having a functioning market as a precondition for accession. But joblessness rates of 44% in Kosovo, 42% in Bosnia and Herzegovina and 37% in Macedonia show, that this condition has not been observed, even allowing, that many of unemployed have work in the grey economy, which existence is an additional obstacle for the EU membership.

7 BYRN – Balkan Investigative Reporting Network (December 16th 2005), Comment: *The Credibility of EU Enlargement Process at Stake*; http://www.birn.eu.com

8 Ibid.

On the other hand, many Balkan analysts hold opinion that free trade regime offered to Balkans farmers may inflict more damage then help. The problems of agricultural cooperation have to be analyzed more specifically. Namely, the EU established a very open trade regime for the West Balkans states, which demonstrated the EU commitment to the region economic development. But, as the majority of Balkans countries experts testify, free trade regime may inflict more damage than help on regions ailing agriculture sector. "The EU can open doors, the question is whether we can walk through them", told a manager of Croatia's leading food processing company[9]. It is clear, that the Balkan agricultural enterprises can't compete with European companies that have been in the market for more then a hundred years. As a result, total exports from the Western Balkans to the EU constitute only 0.5% of EU imports each year.[10]

Besides, the annual export potential is reduced by the quota system. For instance, thanks to an EU annual quota of 300 000 hectoliters from Macedonia the country loses about a half of its export. The similar problem faces Croatia in connection with the one of its truly profitable fish export industries. The sugar industry of all the Western Balkan countries has boomed since Brussels abolished limits on sugar exports to the EU in January 2002.

Access to the EU agricultural development programs, as well as to the agricultural subsidies, would massively improve situation. "Exporters have a point", stated Michael Karnitschnig, European Commission official. "It is not sufficient to give access. There is need for agricultural restructuring with help of an agricultural development program to help them face market pressures".

But European Commission makes also claims on the states applicants from South-Eastern Europe economic and political actions. The European Commission annual reports have established the fact of corruption and stalled reforms as a serious obstacle of continuing failure to meet European Union membership criteria even for Romania and Bulgaria, expected to join the second wave of East-European accession countries, but according the rough estimations the 2007 date is looking increasingly unrealistic.[11] In February 2006 Romanian Parliament excluded from the low project the main point of Anti-corruption Law, which proposed to set up a special Prosecutors Office to investigate senior politicians and judges. The bill was rejected by the Parliaments upper chamber, Senate. As the independent Romanian expert, Mark Percival, stated, to the majority of the political class it is hence irrelevant the establishment of an independent judiciary as a vital EU entry criterion. The Romanian government, led by the centrist Tarcianu, is seriously worrying that

9 Institute for War and Peace Reporting (IWPR), London: *Balkan Crisis Report*, No. 535, January 7th 2005; http://www.iwpr.net

10 Ibid.

11 IWPR: *Balkan Crisis Report*, No. 467, November 6th 2003

without the Anti-corruption Law it will be unable to persuade Brussels that the government takes fight against corruption.[12]

Bulgaria and Romania are expected to join European Union in 2007. Preparations for integration exert influence upon all economic policy making in the region. Both countries are intensive working with the International Monetary Fund (IMF) and other international donor institutions to bolster their economies. In Bulgaria persistent fiscal deficit has to be resolved before integration, while Romania struggles with both high inflation and difficult structural reforms. Both of them are suffering from a high level of corruption.

Issues as: how to balance national interests with those of EU and how to respond to unfavorable trends in EU policy accession and enlargement make anxious Bulgarian leadership as well. After four years in government the National Movement Simeon II (NMSII) its society support according to opinion pools has declined from 46% in 2001 to between 15 and 25% in 2005[13]. The Accession Treaty was signed in April 2005, but large society opinion is critically disposed to the integration process that has not sufficiently understandable for the citizens. The new Bulgarian coalition-cabinet is seriously afraid, that Bulgaria loses international credibility because of the slow reforms and the high corruption level.

The former Bulgarian prime-minister who opened accession negotiations in 1998 Ivan Kostov states that the country is still not prepared for the EU joining and the existent governments must accept responsibility for its slow improvement[14]. Headed by him, the former communist, today Bulgarian Socialist Party (BSP) tries to persuade the public opinion, that it could better defend the national interests in Europe. The BSP points out that after eight years in opposition its approach to the problems of European Integration is more constructive, it could to speed up the integration processes and prevent any delays in obtaining the EU membership. But, as European expert Milena Borden mentioned, that independent of existing government, without more honest debates on the problems lying ahead, there is a danger that the accession projects will be doomed to failure and disillusioned Bulgarians could relapse into isolationism and euroscepticism.[15]

Since the revolutions 1989-1990, all East-European countries of the former “soviet block” demonstrated intention to join another Euro-Atlantic alliance – NATO, which after the dissolution of the Warsaw Treaty Organization had emerged as a single bastion of security in Europe. In the early 1990’s, three Balkan countries – Albania, Romania and Bulgaria – officially declared intentions for the NATO membership, but the first case of NATO enlargement in

[12] BYRN, Balkan Investigate Reporting Network: *Balkan Insight*, February 16th 2006

[13] IWPR, Balkan Crisis Report, No. 561, June 23rd 2005

[14] Ibidem

[15] Ibidem

this region took place in the 2002 only, when the membership of Romania and Bulgaria has been adopted. NATO politicians did not reject, that including the states of South Eastern Europe in NATO has geo-strategic value in the context of eventual Balkan crisis and with respect to advancing and protecting Alliance interests in energy development of Caspian Basin and even in the Middle East. That means that many potential candidates were discussed in geo-strategic terms, with Article 5 obligations in mind. As Jeffrey Simon, Senior Fellow of the Institute for National Strategic Studies (USA) stated, Slovakia and Slovenia "provide a land bridge to the NATO islands in Hungary", and Romania and Bulgaria "contain" Serbia and "stabilize" "Macedonia while linking Hungary to Greece and Turkey".[16] Taking into consideration the mentioned assertions it is doubtful, that the existing security problems of the Balkan countries are for the Alliance of a great significance or that all the NATO potential would be right away placed at the disposal of new members. The lack of balance of power in current European relations in security area and predominance of one, external, superpower will be the greatest problem and source of instability in current temporary and transitional European security order and its Balkan subsystem.

All the mentioned considerations persuade that the future of Balkan region could be for the present appreciated as uncertain. The very specific problems combined with the old issues – inter-ethnic tensions, border disputes, terrorism, drugs and arms trade. In this connection the European Union, regardless of al the existent problems, is undoubtedly a Community and the system that represent some strong attractions and point out advantages for South Eastern Europe as a whole. European Union is forced towards the Balkan area to resolve not only questions, for which it has great experience, but also accomplish tasks of the foreign and defense politics.

4. Economic interests for cooperation of Russia and EU with Balkans states

The Balkan countries, coming from the communist experience, that's from quite another model of the society organization in the spheres of economic and politics, it is difficult to acquire equilibrium, stability and solidity. As Italian researcher Marco Ricceri mentioned, there exists an evident disproportion of EU programs and initiatives in economic and social spheres that can produce a social disaffection, the increasing role of the eurosceptic parties, the fall of consensus in connection with the European integration.[17] How much the bor-

16 J. Simon, "The next Round of NANO Enlargement", *Romanian Journal of International Affaires*, Bucares, Vol. VII, No. 1-2, 2001

17 М. Риччери, op. cit., p. 58.

ders of EU are moving toward East, become more important the relationship and cooperation with Russia, it is inevitable consequence, states Ricceri.[18]

Russia as a traditional ally and partner in the Balkans has been temporary forced out from its habitual sphere of military, political and cultural influence. The Russian foreign policy possibilities were limited not only because of the regional crisis situation but through the internal political instability as well. Meanwhile the different dimensions of Russia's interests in the Balkans remain.

Among different dimensions of Russia's interests in the Balkans is geo-political dimension. As far as the Balkans is near to the Russian borders, it determines permanent Russian intention to have friendly relations with the Balkan countries. It is also worth to mention that with some of them Russian people had always deep friendly relations. Now they share the similar tasks of difficult transition to democratic society. It is an objective interest of Russia to have stability in the Balkans.

The national interests of Russia could not be the same that of the former Soviet Union, even in the important for Russia Balkan region. On the other hand the specific traits of the Russian foreign policy in this region are determined by the contemporary complexity of the Balkan situation. Moreover, the Balkan foreign policy concept of Russia is periodically influenced by internal national-patriotic forces.

The economic dimension includes appreciation of the Balkan states as traditional business and commercial partners. The tendency to further development of earlier existed relations remains the constant feature of last decade. What needs now the majority of the Balkan countries is a massive economic support. Russia might be willing, but is nowadays unable to provide a large economic help. The cooperation between European Union and Russia is therefore of mutual interest and benefit now.

As it is known, the countries of South-Eastern Europe occupy a strategic economic location in the Black Sea – Mediterranean region, transporting electricity through much of the Balkan countries and Russian natural gas to Western Europe and Turkey. South-Eastern Europe is also a potentially significant transit region for Caspian oil exports to Europe.

Not only Bulgaria and Romania but also the countries of the Western Balkans have the real possibilities to grow as transit centers, carrying Russian and Caspian Sea Region oil to markets in Europe. Several pipeline projects have been proposed or are yet being developed, as the Albania-Macedonia-Bulgaria Oil Pipeline (AMBO), Burgas-Alexandroupolis Pipeline (BAP), Constantza-Omisaly-Triest Pipeline (COTP)[19].

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18 Ibid., p. 60.

19 See more specifically: *Sotheastern Europe Country Analysys Brief*; http://www.eia. Doe. Gov/emeu/cabs/romania. html

The AMBO project has to connect the Bulgarian Black Sea port of Burgas with the Albanian Adriatic port of Vlort. The pipeline will bypass the Turkey increasingly congested Bosporus and Dardanelles, it is one of several "Bosporus bypass" oil pipeline proposals that are currently under consideration or in development.

The BAP is a common Russian-Bulgarian-Greek project which is intending to link the Bulgarian Black Sea port of Burgas with the Mediterranean coast of Greece. In the project support has expressed interest also Kazakhstan, whose oil production is expected to grow significantly over the next decade.

The COTP is expected to connection the Romanian Black Sea port of Constantza with Croatian Adriatic port of Omisaly and possibly on to Italian city of Triest. The proposed pipeline would extend across Romania to the Serbian town of Pančevo (near Belgrade), where it would connect to an existing branch of the Adria pipeline which traverse Serbia-Montenegro, Bosnia-Herzegovina and Croatia. An alternative route is a northern proposal which would cross southern Hungary and Central Slovenia, but the cross-Balkan project seems to be more attractive.

The countries of South-Eastern Europe are also net natural gas importers with supplies coming from Russia along the south branch of "Progress" pipeline. Over Romania and Bulgaria passes also transit pipelines of natural gas from Iran via Turkey, Bulgaria, Romania, Hungary, to Austria for regional distribution. The project isn't yet finished but received support of the European Commission, which has also provided financial support.

Last but not least it is worth to mention possibilities of the electricity supply sources of the Balkan countries.[20] Two nuclear plants, one with four working reactors in Bulgaria and one with one working reactor in Romania provide ¼ of all the electricity generated in South-Eastern Europe. The Bulgarian enterprise Kozloduy has been significant regional power provider, supplying also Turkey. But the European Union supervisors have pressed Bulgaria to deactivate two Kozloduy's reactors, created in the Soviet Union existence times. Taking into consideration the perspective of EU integration Bulgarian government agreed to close Kosloduy-3 and Kozloduy-4 on the condition that European Commission will provide monetary compensation. The government decision has been however cancelled by the High court, which also has approved construction of new nuclear plant Belene with support of several international companies.

As for Romania, it is working to construct a second reactor at Cernavoda, at the same time significant role in the country's electricity sector has hydroelectric power (30% of the whole generation).

Summing up, it is worth to mention that the Balkan region is neither major energy producer nor consumer. Although the region does hold some important fuel deposits, these resources are not significant on a world scale. The political and economic instability in the Balkans in the recent years has dam-

[20] Ibidem

aged any substantial foreign investments in the respective countries energy sectors. But now the region could became more important as a transit road for Russian and Caspian energy supplies to Western consumers.

All the mentioned and another, possible projects become a sphere of EU, Russian and the Caspian Basin countries common interest. The contemporary relation system between EU and Russia is based on substantially tree important documents: *Agreement of Cooperation and Partnership, signed at Corfu in 1994*; the *Agreements of Cooperation signed during the summit of St. Petersburg in May 2003* and the special document, which established the *Permanent Partnership Council (April 2004).* On the ground of the mention agreements the Balkan area could be considered as a sphere for a new form of geopolitical cooperation between Russia and the European Union. As for the Balkan area, it can represent for Russia possibility to enlarge connections and the relationship system with the South of Europe. The Balkans are also a part of Mediterranean and in this sense the Balkan region could represent for Russia possibilities to play an active role in a more large area which evidently has an urgent necessity of appeasement and cooperation. Last but not least, Russia has in the Balkans a long traditions of political, cultural, confessional interaction, thus it is the most proper state for bringing in the region stability and progress.

South-Eastern Europe isn't now the region doomed to instability. Conflicts on the territory of Former Yugoslavia have taught a hard lesson to all the actors of the region. It would be like to expect, that the Balkan states will not resort to force for the solution of disputes and will increase its mutual cooperation. It is obvious that without regional cooperation neither political stabilization nor economic recovery of the whole region could hard be imaginable.

Today, practically all the Balkan countries are members of different regional organizations. Most initiatives could be initially seen as declarations of intent. But it is important that the majority of them were supported from outside, including Russia and Turkey for BSEC and the European Union for CEFTA[21]. All the regional organizations in the Balkan involve both governmental and nongovernmental structures, the fact, which represent large possibilities for cooperation with European Union and Russia in the field of energy resources transportation and provision.

In conclusion it is worth to mention that the future orientation of the Balkan cooperation depends on the successful implementation of democratic reforms and humanitarian values. A constructive appeal to history might also help to get over the difficulties which have been faced the Balkan countries on the XXI Century.

[21] See more specifically: Franz-Lotar Altmann, "Scemes of Regional Cooperation in South-Eastern Europe", *Journal Of Southeast European and Black Sea Studies*, Vol. 3, No. 1, January 2003

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MONETARY STABILITY – THE BYZANTINE MODEL*

Abstract: *The history of economics has shown that monetary stability is one of the main factors in a process of long term economic growth and increase in living standards in a country. Therefore, it can be said that achieving monetary stability represents a kind of universal condition for providing economic growth. Namely, historically speaking, the longest period of monetary stability has been achieved by the Byzantine Empire. The model of Byzantium is didactic, not only because it clearly emphasises how important the quality of fiscal management is in maintaining monetary stability, but also the fact of who rules a country. Monetary and fiscal sovereignty of the Byzantine Empire was held by just one man – the Byzantine emperor.*

Key words: *the Byzantine Empire, monetary stability, metalic monetary system.*

1. Introduction

The Byzantine State was raised on the foundation of the Eastern Roman Empire. Historiography divides the existence of the Byzantine State into two periods- the early Byzantine period and the Byzantine period. The Early Byzantine period lasted from the fourth to the seventh century, namely from the reign of Constantine the Great (306-337) until the execution of the emperor Phocas (602-610). The period of anarchy and crisis during the rule of the emperor Phocas was in fact the last period of the existence of the Old Roman Empire. After a difficult crisis, the Byzantine Empire emerged as a new country with no obsolete late Roman institutions, strengthened by new state practices, as well as demographic powers that were simultaneously appearing from the Slavic newcomer population. The history of the Byzantine State really started with the emperor Heracleios (610-641) and it lasted until the fall of Constantinople into the Turkish hands in 1453 AD. Though Greek instead of Latin was spoken in that millennial empire, its population (the Byzantines) kept calling

* *Translated from Serbian by Maša Stojičić.*

themselves the Romans, namely *Romei*. There were two main reasons for this: firstly, the Byzantines considered themselves the only true heirs to the Roman Empire; secondly, it was unacceptable for them as Christians to be labelled Greek, as the Greeks were pagans.

The socioeconomic structure of the Byzantine State was gradually changing during the 11th and 12th century. Until the 11th century, the Byzantine State was an empire based on small estates of free peasants and peasants-soldiers (*stratiots*), organised within larger territorial units called *themes.* A fiscal system based on taxation on free peasantry suited such state system. The ultimate power- legislative, military, fiscal and monetary was held by the the emperor, called *vasilevs*[1] since the reign of Heracleios. Though it was believed that vasilevs ruled by divine guidance and rights, which is obvious from the epithets attached to the word – *agios* (sacred), *isapostolos* (equal to the apostles), and even *tios* (divine), there was never a cult of the emperor's personality in the Byzantine State that was found in many European medieval states and among many peoples. Despite a high and powerful status he had in the state, vasilevs never became the central personification and embodiment of the national community. [2] The Byzantines rarely felt a strong emotional attachment to their emperor, whom they regarded as the universal lord of the world, except for the emperors of the Macedonian dynasty. [3]

After the death of Basil II (976-1025), the Empire started to lose power, whereas the power of rich people from the so-called *dinats* was on the rise. Among dinats, the strongest group was that one where the owners of large estates belonged. They were continuously sending their requests for allocating estates, granting privileges and fiscal and legal immunity to the emperor. The emperors were increasingly granting such requests, which gradually turned owners of large estates into the western type of feudalists. During the Angelid dynasty (1185-1204), the feudal aristocracy definitely conquered the central power and the Byzantine State then become a true feudal state based on large estates where dependent peasants, so called *parici* made workforce. Feudal

1 Vasilevs is an old word denoting king. It changed the Roman imperial titles of emperor, Augustus and Caesar, so it became an official title of Byzantine rulers.

2 The most important reasons for this are: ethnic differences in the Empire, lack of law on succession to the throne, as well as the standpoint left from the old Roman Empire according to which the imperial throne was a divine gift, and any violent seizure of it could be justified by the very success of the endeavour. Dimitri Obolenski, *Vizantijski komonvelt*, Prosveta, Beograd, 1996, p. 368 and 369.

3 Political philosophy of the Byzantine State, presented in the so-called *Book on Ceremonies*, started from the idea that the power of vasilevs, "by its rhythm and order, pictures the harmonious movements granted to the Univers by its Creator ". This led to a conclusion that vasilevs was the only ruler of the universe-"the lord of all people", as it is particularly emphasized in a discourse written by deacon Agapit in the 6th century during the reign of Justinian I (527-565). This political philosophy was the basis for international politics of the Byzantine Empire during its whole history. Op. cit., pp. 267-268, 324.

structures were particularly contributed by the economic institution of *pronia,* which appeared in the middle of the 11th century, as dependent estates were granted to feudal lords as an award for successful work on a state position. The new feudal system led to the change in the nature of the fiscal system, which then became based on taxation on large estates. This change had direct influence on the value of the Byzantine money, as the monetization of the economy was carried out through the state or imperial treasury.

As all other medieval economies, the economy of the Byzantine Empire was founded on agriculture, but various crafts, domestic and foreign trade were also very developed. Unlike most countries that were mostly monocultural or had very simple economic structures (except for China and India), the production activities in Byzantium were very diverse even since the sixth century. A high level of diversity of the economic structure was one of the permanent characteristics of the Byzantine economy. Another noticeable characteristic was its long term growth which lasted until the 14th century. The Byzantine economy was constantly rising for centuries, although the Byzantine Empire passed through various state crises, Civil wars, external invasions, territorial and socioeconomic changes, so it even survived a temporary break- up of the state which lasted from 1204-1261. This break-up was caused by the crusaders, who turned their spears towards the Byzantine Empire in one of their battles for the liberation of the Christ's grave, conquering parts of its territory.

One of the prerequisites and factors in permanent economic growth was monetary stability which lasted, with some monetary and financial crises, until the last days of the Byzantine Empire in the 15th century. Minting gold coins in the fourth century, the solidus is considered to mark the beginning of the Byzantine monetary system. Taking this moment into consideration, there is the conclusion that in the whole world's monetary history, no other state managed to maintain monetary stability during such a long period of thousand years. This is the reason that the Byzantine Empire has the special place in the monetary history.

2. Maintaining stability in metallic monetary systems

The Byzantine monetary system represented a continuation of the previous Roman monetary system, which was of three -metal nature, for all the coins were minted from three kinds of metal – gold, silver, and copper (bronze). Three-metallic system remained until the final days of the Byzantine Empire; whereas golden coins were the main money in the Byzantine Empire; in the old Roman Empire it was silver coins, the denarius. Unlike the Byzantine Empire, monetary systems of the west European states were far simpler- they were based on silver almost until the 13th century.

In metallic monetary system, monetary stability was accomplished by maintaining a permanent quantity of metal in coins, namely in the monetary unit. Therefore, monetary stability was reflected in maintaining a fixed price of monetary metal. The quantity of metal in a unit of coin depended on the chosen minting rate, or the number of minted coins from one unit of weight used in measuring precious metals. The main unit of weight for measuring precious metals was pound or libra (litra).

In the monetary theory, the quantity of precious metals in a unit of coin is called *intrinsic value*. Producers of coins, the mints, guaranteed the value by engraving stamps on coins. If that guaranteed quantity was changed, if the intrinsic value of a unit was changed, it resulted not only in changes in the price of products and services expressed in that currency unit, but also a change in the ratio of various metal money. Most often, the need for extra money led to a secret or illegal decrease in the intrinsic value of a metal monetary unit, which caused very fast increase in prices expressed in that monetary unit.

Illegal and secret decrease in the value of coinage is known as money debasement both in theory and practice. Money debasement was being carried out in many different ways. According to the used technique, there was physical and nominal money debasement. Physical debasement consisted of minting coins with lower quantity of metal than the prescribed rate, but with the same nominal value. Decrease in metal quantity was achieved in two ways – minting coins with lower total weight or by making minting process less fine. These two methods were applied either separately or simultaneously. The nominal method of money debasement consisted of increasing nominal value of money with no adequate change or increase in the quantity of precious metal.

The central importance of minting rate in metallic monetary systems obliged the country to standardise the technique of measuring weight of precious metal, as well as to make sure these weight standards were met. The Byzantine system of standard measures is shown in Table 1. This system of measures was used by the main Byzantine mint in Constantinople. The picture shows that one pound (libra or litra) in Constantinople weighed 324.72 grams and it was divided into 12 ounces, so an ounce weighed 27 grams. The smallest unit of weight was carat, which weighed 0.18 grams. Some time before the end of the Empire, the weight of litra fell to 318.7 grams. [4]

[4] C. Morrison: “Byzantine Money: Its production and Circulation“, published in: A. E. Laiou, Editor-In-Chief, *The Economic History of Byzantium From the Seventh through the Fifteenth Century*, Dumbarton Oaks, Washington, D.C., 2002, p. 944.

Table 1: *Byzantine measurement system – the Constantinople mint*

1 pound =	*12 ounce =*	*72 the solidus =*	*288 scruples =*	*1 728 karats =*	*324.72 grams*
	1 ounce =	*6 solidi =*	*24 scruples =*	*144 karats =*	*27 grams*
		1 solidus =	*4 scruples =*	*24 karats =*	*4.5 grams*
			1 scruple =	*6 karats =*	*1.12 grams*
				1 karat (siliqua) =	*0.18 grams*

Source: C. Morrisson, "Byzantine Money: Its production and Circulation", p. 921.

Mints were the main producers of coinage. In the long history of metallic monetary standard, the work in mints in different states was regulated in different ways. Ultimate rulers most often directly controlled the production of money in mints. However, they could share that monopoly right with some chosen subordinates, giving them the right to mint their own coins in one part of the state territory. It was far more unusual that other top state bodies- the Senate, City Council or Parliament controlled the work of mints. In the Byzantine Empire, there was the state monopoly on minting coins in its whole history and it was practically in the hands of vasilevs.

In a metallic monetary system with no developed banking system, such as the Byzantine monetary system, monetary supply depended on the supply of precious metals in mints, so providing sources of precious metals presented one of the main objectives of the state policy on money. Monetary demand, on the other hand, depended on the level of monetization, i.e. the relationship between market and primitive economy within the society.

The rate of monetization was changing in the long history of the Byzantium. In the 8th century, the main state tax – land tax was levied in gold instead of payments in kind (*anon*), which was a sign that the Byzantine economy was pretty monetized at the time. It was believed that the rate of monetisation was the highest between the 9th and 11th century.[5] As market economy was most developed in cities, the use of money was on the highest level in Constantinople and other big cities, whereas in agriculture, as the most important sector of the economy, the rate of monetisation was around 35% of total agricultural production.[6]

5 B. Stojanović, *Ekonomska istorija sveta*, Megatrend univerzitet primenjenih nauka, Beograd, 2005, p. 289.

6 Ibid., p. 313.

3. The solidus of Constantine the Great – The beginning of the Byzantine monetary system

Historians claim that the Roman State establishment, Christian religion and Greek culture represented the foundation of the Byzantine state. [7] Constantine the Great with his reforms set up the first two out of three principles and made some room for the third one by moving the hub of the Roman State to the east, to Constantinople, the city which he had established. That is why Constantine the Great is considered to be the founder of the Byzantine State. However, Constantine the Great also set up the Byzantine monetary system by his monetary policy, which lasted almost unchanged in the following 700 years after his death.

Constantine's monetary reforms had two stages. The first one was carried out between 309- 313 AD, and in this period Constantine carried out the reform of minting practice by minting new gold and silver coins. In the second stage, around 325-326 AD, he legally protected the stability of gold coinage which he had minted in the first stage.

At the very beginning of its successful reign, Constantine had new gold coins, *solidi,* minted. New coins were struck at the minting rate of 72 pieces from one libra of gold, which meant a solidus coin weighed 4.48 grams of gold.

In addition to the solidus, Constantine had another two golden coins minted – the *semisis and tremisis*.

The semisis coin had the value of half the solidus and the tremisis, one third of the solidus. He also had new silver coins minted, the *miliarense* and also continued having Diocletian's copper follies struck.

As it was previously mentioned, the most important thing for a proper operation of the coinage monetary systems was to provide sufficient supply of precious metal, so that minting could go on smoothly and the economy be regularly supplied by sufficient quantity of money. Constantine provided many sources for minting new golden and silver coins. The first source was the inflow of tolls from newly conquered territories in the East. The second source consisted of new taxation that Constantine had introduced and strictly insisted it should be paid in gold and silver. The third source was the state purchase of gold made by state officials in the whole Empire at the fixed price that resulted from minting rates. The most important source of precious metals, however, was provided by the confiscation of pagan temples ordered by Constantine for minting new gold and silver coins. Some historians are even prone to believe that this economic motive was one of the decisive reasons why Constantine legalised Christianity.

However, in addition to new gold coins, imperial mints kept the old practice of minting and inserting huge sums of bad money in circulation. Therefore, the new golden and silver coins of full intrinsic value were in circulation

[7] G. Ostrogorski, *Istorija Vizantije*, Prosveta, Beograd, 1996, p. 48.

simultaneously with debased silver and copper coins. As other kinds of coinage did not have fixed value in relation to the solidus, the value of the solidus was continuously rising against debased coins. It is noted down that money dealers had to quote foreign exchange rates of the solidus in relation to the other coinage with no full intrinsic value, on everyday basis.

Though they were circulating at the same time as debased coins, three new golden types of coinage did disappear from circulation, which regularly happened in case when there were simultaneously in use those coins of full intrinsic value and debased ones (Gresham's law). During the reign of the emperor Constantine, Gresham's Law was not operational because the supplies of coins with full intrinsic value was high enough and also because the inflation rate was far lower than during the reign of the previous the emperor, Diocletian (284-304AD). When he succeeded to the throne, Diocletian faced the problem of a very high inflation rate which he, however, could not manage to solve by his reforms. As the biggest share in metal used for Constantine's new gold coins and silver coins was coming from the confiscated property of pagan temples, the monetary historians concluded that Constantine managed, thanks to the wealth from pagan temples, which Diocletian had not managed to do – to recover the trust in money. Therefore, during the reign of Constantine, the Roman economy was gradually being supplied with bigger quantities of high value money, which led to its remonetisation, especially in the eastern part, the part of the Empire economically and culturally more developed. In that part of the Empire, remonetisation contributed to the further development of trade and all economic activites.

Immediately after the victory over Licinius in November 324 AD – which made him the only the emperor – Constantine started building the new capital of the state in a small settlement in the eastern part of the Empire called Byzantion, which eventually became Constantinople. Two years later, in 326, Constantine legalized the monetary system he had already introduced when the solidus was struck. In order to protect the solidus from possible debasement, Constantine introduced the penalty of burning at the stake for money forgery. Such legal codification made people aware that the stability of the national currency is more important than the life of vassals in the state, in other words, it represented the most superior, almost "sacred" principle of ruling the country. That is why this highly elevated principle of monetary stability is referred to as the principle of pious minting. [8]

The principle of pious minting remained the basic principle of the economic philosophy of the Byzantine Empire even after the death of the emperor Constantine. The emperor Justinian (527-565) incorporated Constantine's decision on death penalty for money debasement into his Codex as Article

[8] E. Gmoseclose, *Money and Man A Survey of Monetary Experience*, Forth Edition, University of Oklahoma Press, Norman, 1976, p. 54.

24 of the ninth paragraph under the title *De falsa moneta*, where it was said, among the other things: "Those guilty for money counterfeiting committed high treason and who tells on them will be awarded. Whenever a forger of the solidus is found guilty or anyone allows the flow of the forged solidus, the death sentence will be executed straight away by burning at the stake".[9]

In Byzantine law death penalty by burning at the stake remained until the eighth century, when it was exchanged for the penalty of cutting the hand. Unlike the Byzantine Empire, most European states kept death penalty for forging money in medieval times in their traditional or written law. One of those states was the medieval Serbian state.

It is difficult to believe that the death penalty for the solidus debasement had the biggest contribution to its stabilisation. However, the historical fact is that with its introduction in the Byzantine state, debasement of gold coinage completely disappeared. Despite the effects of the death penalty, the legal policy on minting rate, i.e. fixing the price of gold in the solidus also influenced the stabilisation of the solidus. This was in fact the introduction of strong monetary uniformity that all mints in the Empire had to obey. Legal regulation of financial issues remained in the Byzantine Empire even after Constantine the Great, which contributed to the monetary stability.

Debasing the silver denarius, this was not punished by the death sentence or any fixed fine, continued as in the era before the reign of Constantine. That is why prices expressed in denarii were constantly rising. It can be seen from a constantly rising price of gold expressed in denarii, which still has the reliable records. Diocletian's Price Edict issued in AD 301 ordered that the price of one litra of gold should be 50,000 denarii. Until AD 307 the price of gold went up to 100,000 denarii and in AD 324 it amounted to 300,000 denarii. [10] While the denarius was being debased, the prestige of high value solidus was constantly rising, which was seen from its exchange rate on the market. The largest fall of the exchange rate of denarius in relation to the solidus was recorded in Egypt in the middle of the fourth century, when one solidus was sold for 30 million denarii.[11]

The emperor Valens (364-378 AD), by its minting reforms, increased the fineness of minting solidus to over 99%, which was the maximum level that could be achieved by the minting technology of the date, so their money got the epithet *holokotinos,* the fully pure gold coinage. In the eleventh century, this expression was exchanged for *hyperpiron* – meaning purified with fire, where the root of the new name of the Byzantine coinage – *perper* – came from.

Despite there were full value solidus coins, there was no total curbing on inflation during and after the reign of Constantine, for there was still the

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9 D. Gnjatović, *Dobri i zli dinari*, Jugoslovenski pregled, Beograd, 1998, p. 123.

10 G. Davies, *A History of Money From Ancient Times to the Present Day*, University of Wales Press, Cardiff, 2002, p. 108.

11 Ibid.

money with lower intrinsic value in circulation, which increased the total amounts of money in the circulation above the level of demand. In different parts of the Empire, the introduction of money with lower value was not the same, so the inflation rate varied as well.

After the official division into the Western and Eastern part of the Empire in AD 395, the social and economic conditions were increasingly deteriorating in the western part. Barbarian invasions became constant as they wanted to conquer the whole Italy; the standing of previous German inhabitants in the Roman Empire, who served the Roman army as vassals, strengthened as well.[12] The Roman currency was increasingly being debased, mostly due to salaries paid to the vassal army and gifts in money given to Barbarians to make them abandon their intrusions to the Roman territory. Slaves were fleeing from the state in large numbers, which led to a decrease in agricultural production. In really bad living conditions, the Roman people did not show any resistance to the Barbarians, but they accepted them voluntarily as their new masters. In many places, the poor were even looking forward to German colonization, for it decreased or reduced Roman taxes which became unbearably high.[13]

Socio political conflicts the western part of the Empire culminated in the middle of the fifth century, which resulted in a decline in production and population, as well as the final fall of Rome into German hands in AD 476. Coins disappeared from circulation. All payments were done by measuring metals and barter. At the end of the fifth century the measuring units of weight became unstable because the state was in a disorder and almost totally with no authority, so "there was no law any more which could define the weight of a pound or an ounce, or authority that could eventually implement such law. Under these circumstances, money was dead".[14] Unlike the Western Roman Empire, the Eastern Roman Empire and its money survived in the next ten centuries.

The solidus was the basic currency of the Byzantine monetary system. However, the solidus also served as the model for money units and system in the first countries of the Western Europe which appeared on the ruins of the Western Roman Empire, because that Empire did not leave behind a healthy monetary unit. In a divided Europe of the early Mid Ages, the emperors did not even have

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[12] The reports of Roman historians from the beginning of the 5th century claim there were only 645,000 Roman soldiers. Out of that number, only 150,000 were Roman citizens. The rest were Barbarians, mainly Germans, who had the status of the so-called federates or vassals. Despite the soldiers, germanization involved the peasantry, as well as high ranked military and civil administration, and also the court – the eastern emperor Arcadius (395-408) was married to the daughter of a Franconian leader. In fact, the politics of pacifying the Barbarians by making their settlements on the Roman territory led to a general barbarisation of the Roman Empire, especially its western part. Fjodor Uspenski, *Istorija Vizantijskog carstva od 6. do 9. veka,* "Zepter Book World", Beograd, 2000, p. 128.

[13] F. Uspenski, op. cit., p. 145.

[14] E. Gmoseclose, op. cit., p. 44.

their coins minted, but they used Byzantine golden coinage of the solidus in their domestic circulation (which they called the *byzant)*. In England, for instance, the use of the byzant was a regular and usual thing whenever payments were done in gold. During the reign of king Bela III (1172-1196), the Byzantine golden coinage in Hungary was proclaimed the legal tender. [15] A widespread use of the solidus out of the Byzantine territory made it the international currency, which it remained until the thirteenth century, especially in European countries.

4. Legal regulation of coinage as a factor of monetary stability

During the old Roman Empire, mints often put into circulation, either legally or illegally, debased money, which undermined the monetary stability. In order to prevent such practice, the emperor Constantine, as it was previously described, legally protected the solidus, by a draconian penalty of burning at the stake. The Byzantine emperors after Constantine continued with the practice of legal protection of the solidus, but they later legally regulated the minting practice of the silver coins. Legal regulations related first of all to setting the minting rate or the fixed price of metal and deciding on the fines for forgery. However, during the fourth and fifth century, legal regulations started to include a rudimentary form of the category called 'legal tender', which was expressed by the decision of the legislator that money of full intrinsic value could not be refused as equivalent value in transactions in the Empire.

Theodosius's Code in AD 325 confirmed that the solidus weighed 4.48 grams and he ordered that all purchases and sales of gold had to be done at that price.[16] The same price of gold was prescribed by later laws from AD 367 and AD 379, but the law from AD 367 particularly emphasised that all buyers and sellers of solidi had to accept them in their transactions. Novel 16 of the emperor Valentinian III from AD 445 sentenced to death those who dared to "refuse or reduce the size of the golden solidus of high value".[17]

It has already been mentioned that Justinian continued the legal codification of full value minting, and the emperor Leo VI (886-912) did the same in his work *Vasiliks* which represented the Greek version of Justinian's law, but was supplemented by new legal acts which emerged in the meantime in the form of Novels. As if he intended to confirm the decisions from Vasiliks, Leo VI in its later Novel 52, repeated once again that "each piece of coinage will keep the value, providing that it came from the mint with unchanged fineness and exact weight."[18] Eparh's book, a collection of regulations that defined the work of guilds in Constantino-

[15] D. Obolenski, op. cit., p. 197.

[16] C. Morrisson, op.cit., p. 918.

[17] C. Morrisson, op. cit., p. 919.

[18] Ibid.

ple from the seventh until the eleventh century, obliged money traders (trapezits) to accept the silver miliaresion coins at its established value of 24 obols.

Guaranteed weight and fineness of mints in Constantinople was secured by engraving OB in the period from AD 336 and AD 720. The same inscription was used by Italian mints until the mid-eighth century. The inscription CONOB, which is an acronym for 'Constantinopoli obryziacus' appeared on the back side of money, meaning 'pure gold coins from Constantinople'. As the minting right of golden and silver coins was also given to the mints in other cities in order to cover money demand on the huge territory of the Empire, then all the provincial mints were obliged to engrave the same acronym –CONOB on their coins, as the evidence of obeying uniform minting rate prescribed by vasilevs. This is how minting gold coins became centralised and uniform.

Copper and bronze coinage did not have the uniform inscription, but the engraving of their provincial mints, because the Byzantine state did not uniform standards for weight and fineness of such money. In fact, such money played the role of the currency for small transactions, which is why it had only nominal and not intrinsic value. It served for small and regular transactions of the population. Provincial mints had the permission to determine weight by themselves as well as the face value of copper and bronze coinage which they put into circulation, taking into consideration the demand for the money on their territories. Therefore, a high level of flexibility was achieved, i.e. the adaptability of monetary supply to monetary demand for this money on the level of province, which contributed to an increase in the total level of flexibility of the Byzantine monetary system. This explains why this coinage, in addition to its fiduciary nature, existed in the Byzantine Empire all the time, whereas in the west, it totally disappeared from circulation in the period from the 6th until the beginning of the 16th century. Information about ways of minting technology speaks volumes about diversity of coinage. Therefore, copper money used to be made by adding some silver and that money was called billon. However, coinage was sometimes even made from lead.

5. Byzantine currency in the 5th and 6th century

Written sources, especially Saints' Lives confirm that money in the eastern part of the Empire was regularly circulating even since the 4th century. Patriarch of Constantinople himself John Chysostom (398-404 AD) wrote about the use of money, saying that "the use of coinage unifies all our life and represents the foundation of all our transactions. Whenever we buy or sell something, we use money."[19] This description undoubtedly indicates the all-embracing nature of economic transactions in Constantinople at the beginning of the 5th century.

[19] C. Morrisson, J-P. Sondini, "The Sixth-Century Economy", in: A. E. Laiou (ed.): *The Economic History of Byzantium: From the Seventh Century through the Fifteenth Century*, p. 217.

In the period between 498 and 602 AD, the Byzantine monetary system had several monetary units. Their names, weight, and ratios between them are shown in Table 2.

Table 2: *Byzantine monetary system from 498-602AD*

	GOLD		SILVER		COPPER	Nummi
Solidus	Semisis	Tremisis	Siliqua	Follis	Polufollis	
4.5 gm	2.25 gm	1.5 gm			11-14 gm	
			FINENESS			
98%	98%	98%	96%			
			RATIO			
1	2	3	12	288	576	11520
			1	2	48	960
				1 2 40	2	40

Source: C, Morrisson, op. cit., p. 213.

The main minted currency in this period was the solidus, whereas the silver siliqua was minted in Constantinople only for special ceremonial occasions. As minting rate of 72 pieces out of one litra of gold, the solidus provided stability to the total monetary system. Prices expressed in the solidus were stable.

Territorial expansions undertaken by the emperor Justinian represented a very big financial burden for the treasury, but it did not make the solidus bad money, for the expansions were successfully completed, which brought new quantities of precious metals from new territories. Justinian only reduced the fineness of minting gold coins from 99%, which was set by the emperor Valens in 367 AD to 98.2% However, this decline in fineness rate did not undermine trust in gold coins which was the main instrument for public revenue and expenditure, big trade transactions and private middle size transactions.

Copper the follis was introduced to the Byzantine monetary system by the emperor Anastasius I (491-518 AD) with his monetary reform in 498 AD. The follis replaced all bronze coinage debased in the long period of the reign of Anastius, which is why the value of bronze coinage was decreasing in relation to the solidus , as there were 5,400 pieces to one solidus in 396 and 7,200 pieces to one solidus in 445 and finally 16,800 to one solidus just before Anastasius's reforms. Anastasius I had follis 18gm heavy minted and its parts nummi (argirions) with a face value of 5, 10, 20 and 40 nummi. He introduced the practice of engraving nominal value on copper money previously used in the vandal and Ostrogoth state.

Nummi were later minted with the face value of 1, 5, 10 nummi. During the reign of the emperor Maurice (582-602), the weight of the follis fell to 11-14gms, in the first years of the reign of Herakleios, it was only 9gms (AD 618). The follis was the currency used for paying salaries to the low class of the Byzantine population, which served them for everyday transactions.

When Justinian destroyed the Ostrogoth and vandal country and joined their territories (in Italy and north Africa) to the Byzantine Empire, in those western parts of the Empire a Byzantine monetary system modified by the characteristics of previous 'barbaric systems' (Table 3) was established.

This is how differences in currencies between the Eastern and Western Roman Empire appeared. These differences, however, did not affect the compactness of the monetary system as the solidus was the main currency in both parts of the Empire. The main difference was the copper coinage. In the west, the follis was not minted but nummi with face value of 1, 5, 10, 20 and 40. The weight of nummi here differed from those in the east. Copper coinage, in fact, played much more important role in the Western than in the Eastern Roman Empire. The second difference was in the use of silver coins. Whereas silver siliqua was minted only for ceremonial occasions in Constantinople, in the west it was minted on regular basis in several denominations.

Table 3: *Byzantine money in Italy from 540-602AD*

Gold	Silver – Siliqua	Copper – Nummi
Solidus , Semisis, Tremisis	1/2 1/4 1/8 250 nummi 125 nummi	40 20 10 5 1

Source: C. Morrisson, op.cit., p. 216.

The main Byzantine mint was situated in Constantinople, where precious metals were melted, where coinage from all three metals was minted-from gold, silver and copper – and where the state reserves both in minted and bullion form were hoarded. This mint mainly provided money for the eastern part of the Empire, Asia Minor and Balkans. However, due to the large territory of the Empire, the minting right of gold coins was also given to some provincial mints that regularly made only copper and bronze coins. Those were mints in Thessalonica, Carthagina, Ravenna, Rome and Catania (Sicily).However, in addition to permanent mints, there were also temporary mints in the Byzantine Empire. In these mints money was minted mainly for the need to pay the army. At the beginning of the seventh century, temporary mints were opened in Alexandria and Cyprus in the period between 609 and 610 AD, in Jerusalem between 613 and 614 AD, Isauriy between 615 and 619 AD, as well as the other cities: Salona, Antiohia, Nikomedia, Seleuka, Aleksandreta i Konstantia (Cyprus).[20]

[20] C. Morrisson, *Byzantine Money: Its Production and Circulation*, op. cit., pp. 911-913.

The Byzantine Empire in this period officially forbade the export of golden coins, but they were going out of the country through the gifts sent to foreign countries and rulers, salaries of foreign soldiers-vassals, paying tolls, smuggling, as well as paying imported goods if there was no possibility for the other method of payment. The main role in the Byzantine foreign trade was not played by trade with impoverished states in the west, but trade with the east – China and India. The Byzantine state exported precious fabrics and dishes to these eastern countries, whereas it imported silk, spices and other luxury goods from these countries. Such trade made deficit for the Byzantium Empire, which they then covered in gold.

The mint in Constantinople was located in the Imperial Palace, the so-called Great Palace, Where there was also the imperial, state Treasury – *Vestarion*. The fact that the mint and state treasury were under the same roof was not a coincidence. It reflected the monetary sovereignty of vasilevs, as well as the fact that the Byzantine minted currency was the product and instrument of the fiscal system of the Empire. Until the end of the Byzantine State, the mint in Constantinople was subject to Vestarion, because the mechanism of the state revenue and expenditure was the main source of providing the economy with coinage.

6. The mechansim of monetisation of the Byzantine economy

Coinage was the main type of currency in the whole history of the Byzantine Empire, whereas bank money practically did not exist as Byzantine bankers did not develop banking business to the level of the creating bank money. Written sources show that there were loans in the Byzantine Empire in the 7th century, which developed in the mid-Byzantine period (mostly maritime loans are mentioned), and had the greatest growth since the thirteenth century. Byzantine bankers might give large loans to the emperors or states, and to individuals. For example, sources mention a very rich tax collector Patricius, who gave loan to the emperor John VI Kantakuzin (1347-1354). This was a 100,000 perper worth loan with effects worthy 40,000 perpers.[21] However, these bankers, despite their individual wealth, could not significantly influence the rise in the money supply or the speed of money circulation. That is why we cannot talk about the bank creation of money in the Byzantine Empire, which was a tendency that started to develop in the West in the late Middle Ages. Instead of banks, the country was the power source for the monetisation of economy.

The use of money in the Byzantine Empire started to rise immediately after the monetary reform of Constantine the Great in the fourth century. The state had an influence on the rise in money use, by its demands that the main public expenditure should be paid in golden coinage. In order to meet that

[21] C. Morrisson, op. cit., p. 909.

demand, the state paid its main expenditure in coinage, which meant it had to buy precious metals and mint coins.

The main state expenditure consisted of paying salaries of officials, the so-called rogs, and they were paid mainly in gold and less frequently in silver and copper coinage. The amount of individual payment depended on the status in the state hierarchy, the higher position, the higher the wage. The emperor himself or his deputy paid his officials, once a year, on the day of Holly Sunday. Therefore, rogs represented the most important channel that served the state to put coinage into circulation, in other words, it was the most important channel that created the money supply in the Byzantine State.

Insignificant parts of rogs were often paid in kind, namely the food for low position officials, and in silk for those on higher position. A bishop from Kremona who was present at the ceremony paying rogs in 950 AD, described rogs consisted of gold and partly of silk fabrics. On that occasion Army and fleet commanders received their salaries in bags they could not carry themselves and masters got 24 litras gold each in coinage, i.e. 1728 nomismae (solidi) that weighed 7.68kg.[22] High officials were also judges, whose salaries varied between 13 and 27 litras of gold in coinage. When the emperor Constantine IX Monomah (1042-1055) legally established the position of supreme professor of law school (opened in Constantinople in 1045) under the title ‘ keeper of law’ (*nomifilaks*), and by the same code he determined the annual salary for this position should amount to four litras of gold or 288 nomismae, some silk and a symbolic personal gift. [23]

The state establishment of the Byzantine Empire had about sixty different highest state officials. Total annual pay for these officials totalled 60,000-80,000 nomismae or about 300-350 kilograms of gold. If the salaries other officials on lower positions are added to these salaries, the estimate is that vasilevs gave to his servants once a year through their pay around one ton of gold. Therefore, the state put into circulation for rogs every year the whole ton of gold in coinage, i.e. in golden the solidus or nomisma. The production of so big quantity of money was organized in Constantinople and other, permanent or temporary provincial mints.

The monetary policy of the emperor or the central government was first of all that the emperor adjusted the quantity of minting, minting rate, fineness and nominal value of currency not only to the quantity of metals he had available, but also to the financial demand of the country. The fact that the Byzantine the emperors were fully familiar with the essential principles of fiscal and monetary policy was clearly witnessed by the Byzantine historian and official Michael Psel in his work ’Chorography’ where he described the busi-

22 N. Oikonomides, “The Role of Byzantine State in the Economy“, in: A. E. Laiou, op. cit., p. 1011.

23 N. Oikonomides, ibid.

ness wisdom of the emperor Michael Dukes and said that the emperor fully understood and considered taxation system, public expenditure and revenue, payments of the state treasury and proportion of salaries that were going back to the state treasury through taxation. He knew everything about the mint, exact weight of stater (nomisma), about the process of control the fineness of gold, the proportion of precious metal in each coin.[24]

The administrative management of minting coins in the Byzantine state had two permanent characteristics. Firstly, minting was centralised during the whole period, despite the fact that provincial mints were often opened, as all mints were under the same management of Vestarion. Unlike in the west, there were no concessions given to local authorities – counties, bishops and other church and secular people for minting coins. Vasilevs had the highest supervision over mints and he collected potential revenue from minting business. Secondly, due to centralisation, the Byzantine government could efficiently control the production of new coinage, and partly total monetary supply in which newly produced money was involved.

Written sources about the quantity of annual production of coinage still have not been found. However, estimates were made by an indirect method and they start from the data on the number of patterns for minting and average number of pieces of coins that could be produced by one pattern. This method led to an estimate that the mint in Constantinople in the 7th century produced the following quantity of solidi in a year:

- from 602-610 AD: 840,000 solidi,
- from 610-632 AD: 1,430,000 solidi,
- from 632-641 AD: 750,000 solidi.[25]

It was also estimated that the mint in Constantinople in the early Byzantine period produced five to ten times bigger amount of money than provincial mints separately, and that it annually produced around 250,000-30,000 nomismae in the mid-Byzantine period.

The important part of the policy on money supply was various measures undertaken by the Byzantine government which stimulated bringing coinage back to circulation, which was hoarded in private savings. Therefore, what happened, for instance, in the tenth century is that the government officially forbade hoarding in Constantinople. In times of big shortages of money, the government often carried out confiscations of privately hoarded wealth in minted and specie form.

One part of the money supply policy was also concern for the advancement of minting quality for this is how wear of money was reduced, for it caused a reduction in the quantity of money in circulation. The analysis of money that

[24] C. Morrisson, op.cit., p. 917.

[25] Ibid., p. 937.

went out of the mint in Constantinople showed that the quality of minting was gradually increased in time. The average life cycle of gold coin rose from about 30 years in the fourth century to 60-80 years in the period between the 7th until the 14th century.

7. Evolution of the monetary system from the 7th-15th century

According to the already described system of measurement units, legal regulations and mechanism of monetisation, the Byzantine monetary system operated successfully in the period between the 7th and 15th century, allowing the economy to have sufficient means of payment available, even in the worst period of the Byzantine history. Every serious monetary crisis was followed by the monetary reform which stabilised monetary conditions in the following short or long-term period. On average, monetary stability in the periods between monetary reforms lasted for about one century.

One of the main characteristics of these monetary reforms was the introduction a new monetary unit which replaced the old unit, which had lost its value. Therefore, after the depreciation of the follis and disappearance of the hexagram from circulation in the 7th century, a new unit, the *miliaresion* was introduced and its life cycle lasted from the 8th until the 10th century. After that, depreciation of the solidus and then the miliaresion happened in the 11th century, after which the era of the hyperperis or perper came and lasted during the 12th and 13th century. The end practice of minting the debased perper and high depreciation of copper money in the 14th century marked the last stage in the evolution of the Byzantine monetary system, which represented the era of the stavraton or the silver perper, and it lasted in the period from 1367-1453.

The Byzantine monetary system of the 7th century had three gold coins- the solidus, simisis and tremisis, one silver coin- the hexagram and three copper currencies-the follis, semi-follis and dekanummi (Table 4).

Table 4: *Byzantine monetary system 602-717*[*]

GOLD	GOLD	GOLD	SILVER	COPPER	COPPER	COPPER
Solidus	Semisis	Tremisis	Hexagram	Follis	Semi follis	Dekanummi
4.50 gm	2.25 gm	1.50 gm	6.72 gm	14-3 gm		
98% Au	98% Au	98% Au	98% Ag			
1	2	3	12	288	576	1152
			1	24	48	96
				1	2	4

*Au – GOLD, Ag – SILVER.

Source: C. Morrisson, op. cit., p. 921.

The coinage of the 7th century kept three traditional gold coins which existed since the 5th century – the solidus, semisis and tremesis. All these coins had the fineness of 98%. Since 680 AD, the weight of the solidus was reduced to 4.36 grams and its fineness to 96%. The state saved about 2.7% of gold by such debasement of solidus. It is assumed that this debasement of the solidus appeared due to the transformation in the taxation system and total imperial finances, which required additional amount of money obtained by debasement.

The silver hexagram was introduced in AD 616 and it replaced the previous siliqua**.** It was named after its weight because it weighed 6 scrupuli. As already in 621 AD the state ran out of silver, it was necessary to try to get the church silver in order to continue the regular practice of minting hexagrams. It is believed that the state ran out of silver (as early as in the 6th century) because the imperial mints were buying silver at a much lower price than the market price. In order to get silver, the mints had to eventually accept the market price.

However, minting hexagrams was declining fast and as early as around AD 685, the hexagram went out of circulation and was minted only as *ceremonial* money using patterns for solidus. The main reason for disappearance of the hexagram was the ratio between gold and silver in Byzantium and the neighbouring Arabian Caliphate, which caused the outflow of silver from Byzantium to the Caliphate.

In the 7th century, the weight of the copper follis was constantly declining, from 12gms , in the period between 602 and 610 AD, to 3.6 gms around AD 660. The emperor Constantine IV (668-685) tried to bring back the follis weighing 18gms into circulation by minting and covering the old follis with new ones, and he also introduced the semi-follis. These measures did not give results, so the follis, along with its particles the nummi kept losing its weight, which led to a complete disappearance from circulation of nummi with denominations of one and two nummi.

The emperor Leo III (717-741) inaugurated the era of the miliaresion, which was minted for the first time in 721 AD. The introduction of this new silver money marked a new era of the monetary system which lasted between the 8th and 10th century (Table 5).

Table 5: *Byzantine monetary system from the 8th – 10th century**

GOLD	GOLD	GOLD	SILVER		COPPER
Solidus /Nomisma	Semisis	Tremisis	Milaresion	Karat/Keration	Follis
4.5 gm	2.25 gm	1,.5 gm	2.27-3.0 gm	Fictitious money	14-3 gm
98% Au	98% Au	98% Au	98% Ag		
1	2		12	24	288
				2	24
				1	12

*Au – GOLD, Ag – SILVER.

Source: C. Morrisson, op. cit., p. 922.

The minting model for the miliaresion was the Arab currency *dirham*. Though the miliaresion was firstly produced as ceremonial money, this function was soon overcome. Even as early as in 740 AD, it was decided that the new tax-*dikeraton* –should be paid in this currency. The purpose of this taxation was financing the reconstruction of the walls of Constantinople. Although the weight of miliaresion was half the weight of the previous hexagram, the ratio of the miliaresion to the solidus of 1:12 remained, the same ratio hexagram had. Keeping the same ratio with the solidus explains that the nominal value of the miliaresion was much higher than its intrinsic value as metal. In other words, the miliaresion was more a fiduciary currency rather than full intrinsic value money in the monetary system, for almost four centuries. Somewhere at the end of the 10th century, the change of ratio between the solidus and the miliaresion happened and it reached 1:14. The milliaresion gradually replaced parts of the solidus – the semisis and tremisis, which were rarely minted in the mid-eighth century. It finally stopped during the reign of Basil I (867-886). The same process of simplifying monetary units also included copper money of lower value than the follis. Parts of the follis gradually disappeared from circulation during the 9th century. Therefore, at the end of this period, a very simple three-metal structure of the monetary system was established, in which there was only one denomination for one metal –the solidus, miliaresion and follis.

On the turning from the 10^{th} into the 11^{th} century, at the time of the biggest fight of feudal against centralised power, a new transformation of the monetary system was carried out as a consequence of the previous depreciation of almost all monetary units, which lasted from the emperor Constantine V (914-959) until Michael IV (1034-1041), namely more than 100 years. The new, far complex and unstable monetary system operated from 963 until 1092 AD (Table 6).

Table 6: *Byzantine monetary system from 963-1092 **

GOLD		SILVER			COPPER	
Nomisma Histamenon	Nomisma Tetarteron	Miliaresion	2/3 Miliaresion	1/3 Miliaresion	Karat/ Keration	Follis
4.5 gm	4.13 gm	3.0-2.0 gm	2-1.4 gm	0.9-0.6 gm	Fictitious money	14-3 gm
98% Au	98% Au	98-65%Ag	98-61%Ag			
1		12	16	36	24	288
		1	1 1/3	3	2	24
			1	2	1 1/3	16
					1	12

*Au – GOLD, Ag – SILVER.

Source: C. Morrisson, op. cit., p. 923.

Depreciation of the solidus, which was now more often called nomisma, was carried out due to a continuous decline in its fineness, caused by adding silver at the average annual rate of 0.04% during the whole period. Such debasement of the nomisma increased the total money supply by approximately 0.2% a year. The emperor Nikephoros II Phokas (963-976) introduced the so-called underweight nomisma – the tetaretron nomisma, which weighed one twelfth less than the full value histamenon nomisma. According to the testimony of historians, the state collected taxes in full value nomisma, and paid expenditures in underweight nomisma, and therefore earned revenue in metal. As the law by this time required that every nomisma going out of an imperial mint had to be of the same standardized weight of 4.5 gms, Nikephoros II passed his law under which the light nomisma still had the same ratio of 1:12 to the miliaresion, so he withdrew old, full value nomisma from circulation and re-minted them as light nomisma- which did not differ by their external appearance from the full value nomisma. This allowed the state to mint 8% more (light) nomisma coins from the same amount of gold and put them into circulation. Heirs of this emperor had light nomisma coins minted until 1005, but their light nomisma coins differed from full value nomisma by external appearance. There are no data showing the exchange rate at which they were exchanged in circulation.

During the reign of the emperors from Constantine IX Monomachos (1042-1055) until Roman IV (1068-1071), the nomisma was becoming debased faster through a decrease in fineness of the monetary metal. The average content of silver in nomisma rose from 10.9%, which is how much it amounted to around 1055 AD to 24.8%. Debasement of the nomisma coins caused big disturbances in the economic life, mainly through big fluctuations of the exchange rate and but it also made large revenue for the state and tax collectors, who used the currency mess to determine arbitrarily the value of money whilst collecting taxes. [26] Constantine IX was compelled to reduce the money mess partly by issuing an order to count one nomisma 4 miliaresion instead of 12 miliaresion . This is how he officially admitted that nomisma lost two thirds of its value.

The biggest nomisma debasement happened between 1071 and 1092 AD when the gold content in the nomisma fell from 58.1% to only 10.6%, which turned nomisma into silver money. The last debased nomisma were even added copper, in addition to silver. In this period the fineness of miliaresion was drastically reduced from 90.7% to 71 %(1068-1071) and finally to 45% .During the reign of Nikephoros III (1078-1081) copper follis also depreciated. The weight of the follis fell from 14gms to around 7 gms around 1081AD. It is obvious by the appearance of the lead coinage in 1092 AD that there was a deep monetary crisis in this period. The debasement of the solidus or nomisma in relation to the official standards of weight and fineness is shown in Table 7.

[26] G. Ostrogorski, op. cit., p. 348.

Table 7: *Solidus /Nomisma and its debasement from 695-1092**

Emperor	Years of reign	GOLD in %	SILVER in %	COPPER in %
Justinian II – Leo VI	695-912	97.3	1.99	0.7
Constantine VII	914-959	94..4	4.8	0.7
Michael IV	1034-1041	90.0	7.0	3.0
Constantine IX	1041-1055	87.0	10.9	2.1
Roman IV	1068-1071	70.0	24.8	5.2
Michael VII	1071-1078	58.1	37.1	4.8
Nikephoros III	1078-1081	35.8	56.6	7.6
Alekxius I Komnenos	1081-1092	10.6	72.5	16.9

*Average fineness rate

Source: C. Morrisson, op. cit., p. 931.

If we consider the history of the solidus since its beginning under Constantine the Great, and then add the data from Table 7, it can be concluded that really minted Byzantine coinage had absolutely stable value until 914 AD, i.e. during the whole period of 600 years. In the following period 130 years long, from 914 to 1041 AD, the solidus was being slightly debased by the reduction of its fineness from 94.4% to 90.0%, which did not affect the creation of monetary crises and it can be said that the total stability of the solidus in fact lasted around 730 years. However, from the beginning to the end of the 11^{th} century or precisely, until 1092 AD, the really coined solidus had a high rate of depreciation and therefore it was turned into the silver money for it contained 72.5% of silver.

The monetary reform of Alexios I Komnenos marked the end of the monetary crisis of the 11^{th} century and created a new monetary system with several new monetary units, which is shown in Table 8.

Table 8: *The beginning of the perper era 1092-1204**

GOLD	ELEKTRUM	BILION			COPPER	COPPER
Perper	Trahei Aspra	Aspra Trahei	Karat/ Keration	Follis	Tetarteron	½ Tetarteron
4,3 gm	4,3 gm	4,3 gm	Fictitious	Fictitious	4,0 gm	2,0 gm
87%	30-10%Au	6-2%Au				
1	3	48	24	288	864	1 728
	1	16	8	96	288	576
		4	2	24	72	144
		2	1	12	36	72
		1	½	6	18	36
				1	2	4
					1	2

*Au – zlato, Ag – srebro.

Source: op. cit., str. 924.

This reform introduced the new golden coin *hyperperis or perper* as the main coinage, which was of slightly worse quality or value than the full value solidus or nomisma. The perper officially weighed 4.3 gm and had the fineness rate of 87%. Alexios I Komnenos introduced a new coin made of electrum or white gold-trahei aspra, which had the same weighed as perper, but w has much lower fineness rate varying between 30% and 10% of gold content. The third new monetary unit-aspra trahej also weighed 4.3 gm but it contained only 6-2% of gold c. The introduction of these monetary units with lower value than nomisma is explained by the wish of the central power to avoid disastrous effects of the Grasham's Law, i.e. their wish to keep as much previously depreciated money as possible in circulation. This intention probably came true because it is mentioned in the sources that only the previously minted pure silver money disappeared from circulation.

The monetary system of Alexios was stable and valid during the 12th century, but money debasement started again at the end of that century. Perper debasement was not serious until the emperor Isaak, who reduced its fineness by approximately 20%. Trahei aspra was more debased and its weight at the end of the 12th century was only one sixth of the initial weight. Silver content was reduced in billon money from 6% at the beginning to 2-3% at the beginning of the 13th century, so its ratio to the perper was reduced from 1:18 48 to 1: 184 at the end of the 12th century.

At the time of the political disintegration from 1204 to 1261 AD there was an immediate disintegration of the monetary system. The Nikeius Empire continued the practice successful of applying the monetary system of Alexios, whereas other areas started to mint their coinage and accept foreign coinage in domestic circulation. After the fall of the Latin Empire in 1261 AD, the monetary system of the Nikeius Empire was accepted in the re-established Byzantine state. In the period between 1204 and 1304 AD, the Byzantine monetary system was based on the perper which had the same weight as the previous perper of Alexios, but it had lower fineness rate varying between 75% to 50% (Table 9).

Table 9: *The perper era 1204-1304*

GOLD	SILVER	COPPER	COPPER
Perper	Aspra trahej Trikefalon	Stamenon	Tetarteron
4,3 gm	4,3 gm	4,3 gm	2,2 gm
75% – 50% Au	95% Ag		
1	12	288	576
		24	48
		1	2

Source: C. Morrisson, op. cit., p. 925.

The financial difficulties coming upon the Empire from the beginning of the 14th century were reflected through increased money debasement, but in smaller quantities of total coinage, starting from 1325. The lack of gold first led to a reduction in the perper production and then to the full end in their minting in 1353. The perper had the function of the fictitious cuurency at the time and the monetary system was based on the silver coinage basilikon, which was struck in 1304 AD for the first time. The new monetary system based on the basilikon was working until 1367 AD (Table 10).

Table 10: *The basilikon era from 1304-136.*

GOLD	SILVER	SILVER	BILON	COPPER	COPPER
Perper	Basilikon	½ Basilikona	Tornese	Stamenon	Asarion
Fictitious since 1353	2-1,2 gm	1,3-1,0 gm	0,7 gm	4,2 gm	2,1 gm
	94% Ag		22,5% Ag		
1	12	24	96	384	768
	1	2	8	32	64
		1	4	16	32
			1	4	8
				1	2

Source: C. Morrisson, op. cit., p. 926.

The last Byzantine monetary system lasted between 1376 and 1453 AD (Table 11). This system revolved around the silver coinage stavraton, which weighed 8.8 gm. Stavraton resemble the Venetian denarius grossus by its minting fineness and it kept its quality until the reign of the emperor John 8 Paleologus, when it was insignificantly debased. However, the last Byzantine emperor Constantine the 9th Dragash had the full value stavraton minted even just before the fall of Constantinople in 1453 AD.

Table 11: *The stavraton era 1367-1453*

	SILVER	SILVER	SILVER		COPPER	COPPER
Perper	Stavraton	½ Stavratona	Dukatopulon	Keration	Tornese	Folar
Fictitious	8.8 gm	4.4 gm	1.1 gm	Fictitious	2.4 gm	0.8 gm
1	2	4	16	24	192	576
	1	2	8	12	96	288
		1	4	6	48	144
			1	1 ½	12	36
				1	8	24
					1	3

Source: C. Morrisson, op. cit., p. 927.

The shown evolution of the monetary system is related to the central monetary system which was being created in Constantinople and was valid during the entire period of Byzantium in its historic boundaries. However, as the Byzantine territory was changing and included less and less western parts of Europe, certain aberrations of the monetary system on the west from the central monetary system appeared. The main upholders of partial changes and adjustments were provincial mints.

8. Provincial aberrations from the prescribed monetary standards

The structure of gold monetary units, their minting rate and fineness remained unique in the whole Empire until the 7th century, except from the fact that some provincial mints struck the solidus of somewhat reduced weight and fineness in comparison to the central mint in Constantinople. The first aberration from the standards appeared in 695 AD, when the Syracuse mint struck the solidus with fineness of 80%. It remained this content until its fineness was reduced for the second time between 820 and 886 AD, when the nomisma was turned into the money containing almost 50% of copper. The similar depreciation of the nomisma in that period also happened in Italian mints.

It has already been mentioned that silver money was very rarely struck in the east during the 6th century. However, its production in that century was relatively large in the mints in Cartagina and Italy. Minting sliver money in the 7th century in Cartagina was much different than the same practice in Constantinople. Instead of the big silver hexagram weighing 2.25 gm, the Cartagina mint produced series of small silver coins weighing between 0.7 and 0.3gm, but it did not coin either solidus or the copper follies./.

Silver coinage was losing its importance in Italy during the 7th century. It was not coined on Sicilly ata all, where the mint was producing only the semisis and tremisis until the 9th century. The Cartagena mint Ravenna still made smaller quantities of silver money worth one eighth of the siliqua at the end of the 7th century. The Rome mint represented an exception for it struck the so-called Byzantine-pontifical silver coinage weighing 0.25 gm, which had declining fineness which fell from 95% tp 35% in 780 AD, when that mint reached the circle of the Caroling influence. [27]

There were bigger aberrations from the central standard in minting copper coinage. Until the Arab conquest victory, the mint in Alexandria produced standard denominations of copper nummi of 12, 6 and 3 nummi. The main coin in the province was the nummi in denominations of 12 nummi, which was not valid out of the province and had the same value as the follies. Cartagina also struck copper coinage which was different from copper coinage in Constantinople. In

[27] C. Morrisson, ibidem

Kerson the local copper coinage was minted from the mid 9th till the beginning of the 11th century with some specific metrical characteristics (weight and fineness). The weight of various copper coinages varied between two and seven grams.

The process of regional aberrations in minting coinage from the central standards from the 7th till the 9th century reflected the increasing independence of western provinces and their need to adjust their money supply to the demand of the regional economy. Until the 12th century these aberrations from minting silver and copper coinage were so big that they led to the creation of the local fiduciary money which did not have any relation to the coinage in Constantinople any more.

9. Byzantine mints from the 7th -15th century

In the period between the mid-seventh and eleventh century, the coinage was produced in nine mints in Byzantium (Table 12). As it can be seen in Table 12, all three types of coinage were made in the mints in Constantinople, Rome and Ravenna. Copper coinage was minted in Salonica and Kerson (between 842 and 989 AD). The mint in Syracuse moved to Reddio in 879 AD (south Italy).

Unlike in the east, where mints were producing the single currency, this uniformity was disappearing in the west, due to political fragmentation which occurred in Italy after the creation of the state of Langobard on part of the Italian territory. Political fragmentation and distance from the central Constantinople mint, led to a reduction in fineness and weight of coinage, as well as the change in its external appearance. The Rome mint exchanged the imperial monogram on the reverse of coinage for the papal monogram since the end of the 7th century, which shows that the papal control over coinage production started to rise in the west. Regionalization, as well as the autonomy of local finances related to it, led to a gradual disappearance of the uniformity of Byzantine money in this period.

Table 12: *Byzantine mints from the mid 7th until the 11th century*

DISTRICT	THEMA	MINT	METAL*
East	Trachea	Constantinople	AV, AR, AE
	Macedonia	Salonika	AE (9th and 11th century)
	Kerson	Kerson	AE (842-989)
West		Rome	AV, AR, AE
		Ravenna	AV, AR, AE
		Naples	AV (660-842)
		Syracuse	AV, AE (642-879)
		Reddio	AV, AE (879-912)

*AE – COPPER, AR – SILVER, AV – GOLD.

Source: C. Morrisson, op. cit., p. 914.

There is no enough data on the organisation of minting practice during the reign of the Comnenid dynasty (1081-1185), so minting work was presented in Table 13 on the basis of a hypothesis about the possible agenda for minting work in the mentioned temporary mints.

Table 13: *Byzantine mints in the period between 1081 and 1204 AD*

DISTRICT	TEMPORARY MINTS	METAL*
Salonika	Salonika	AV, EI, B, AE
Greece – Peloponnese	Thebes	AE
Macedonia – Trachea	Filipopolis	AV, B

*AE – COPPER, AV – GOLD, B – billon (copper money with some silver added), EI – electrum.

Source: C. Morrisson, op. cit., p. 915.

The main Constantinople mint did all the melting, minting and hoarding as before. However, due to increasing particularisation and provincial conflicts with central authorities during the 12th century, coinage from some temporary, short-lived, basically illegal mints appeared. Therefore, during the reign of the emperor Alexios I Komnenos (1081-1118), the family Gabras minted the follis in Trebizond, some coins with imperial image and some with no inscription. Nikkita Honiat presented data about another independent producer of coinage. That was a Theodor Makafas, who minted silver nomisma with his own name. In Asia Minor, Bulgaria, and North Greece, coinage with Theodore's image was found; it was struck in Philadelphia in the period between 1188 and 1190 AD. Isaac Komnenos had huge amounts of various coinage struck on Cyprus in the time of his usurpation. He only did not have copper minted, probably because he had some respect for the priority of Constantinople in striking golden coinage.

It is assumed that during the era of the Latin Empire (1204-1261), minting coinage was centralised in Constantinople in the Great Palace.

During the reign of the Palaiologan dynasty (1261-1453), minting was still under the authority of the imperial treasury – Vestarion and minting was carried out in two cities- Salonica and Constantinople. There are indications that two mints were simultaneously opened in Constantinople in this period. One of them still worked in the Great Palace within Vestarion, where mainly gold and silver coinage required for paying taxes was struck. The other, new mint made copper and probably silver coinage- from silver brought by the population.

10. Factors of long-term stability of Byzantine money

Presentation of the Byzantine monetary system evolution shows that the main money, solidus (nomisma) had an absolute stable value for 600 years or total stability 730 years long. It is taken into account that a mild depreciation between 914 and 1041AD, due to a reduction in fineness of minting by 4.4% , did not affect the creation of monetary crisis. It is also obvious that monetary crises provoked by money debasement were rare. The most significant crises occurred at the end of the 11th and during the 14th century. However, all crises necessarily led to monetary reforms after which monetary stability returned and lasted in longer periods of time. Even the last Byzantine emperor, Constantine XI Dragash, had full value coinage struck in the occupied Constantinople just before its fall into Turkish hands.

Monetary stability in Byzantium was the result of combining the following basic factors: legal regulation of stability and protection of stability of coinage; the state (i.e. imperial) monopoly over minting business, and the stability of state (i.e. imperial) budget.

The importance of legal regulations was reflected in legally fixed price of metal and obligation of all mints to respect it, for if they did not, two kinds of punishment were prescribed: first, the death penalty and second, cutting off the hand.

This led to a uniformity of minting gold and silver coinage which naturally helped maintain the monetary stability. Absence of uniformity in minting copper coinage was tolerated because it helped some level of flexibility of the monetary system.

The state or imperial monopoly in minting business contributed to monetary stability through the process of centralised control of all financial issues. Minting monopoly provided an opportunity for the state to directly control the production of coinage, both in terms of legality and in terms of quantity.

Although the research did not manage to discover any precise data on the state of the Byzantine state budget, it can be indirectly concluded that the budget was mostly well-balanced. This conclusion is obtained from an analysis of the Byzantine fiscal mechanism, which showed that fiscal system possessed a very high level of flexibility or adjustability of fiscal revenue to fiscal expenditure.

Fiscal flexibility was based on the principle that the public revenue could be raised and public expenditure paid both in coinage and in kind, which was the way the state managed to keep the budgetary balance. If the state could not collect levies in money, it collected them in grain. When it could not cover all its expenditure in coinage, it could partly pay it in kind, as it was the case with the already mentioned rogs. Further on, some officials did not receive salaries in coinage at all. That group included for instance, the strategists from western provinces who did not receive rogs but they had the right to collect some taxes on their territory, instead of receiving salaries. With these strategists, coinage did not either enter or leave the state treasury. The use of coinage for paying salaries did not exist with those officials who had the right to take money directly from their users for their services. The state only prescribed the method of payment for the sake of protection of the users of services from exaggerated demands of the officials.

In addition to the possibility of collecting revenues and paying expenditures in kind, depending on the conditions of the budget, the state could stabilize its finances in other ways – by introducing extra levies, imposing forced labour with no salaries paid, using the state gold reserves, as well as melting golden and silver objects from the imperial palace and churches for minting more coinage. Very rarely, and not until the 14th century Byzantium used foreign loan as the means of covering state expenditure.

Information on state gold reserves show that they fluctuated a lot, which means they were being intensively used as a stabilizing mechanism of the state finances. [28]

The emperor Theophilos died in 842 AD. He bequeathed gold reserves amounting to 6,984,000 nomisma (97,000 litras) to the treasury and his widow Theodora , the regent until 856 AD, increased these reserves to 7,200,000 nomisma (100,000 litras) which she left to her son Michael III (842-867).[29] The increase in gold reserves at the rate of 3.24% can be taken as an indicator of healthy economic business, i.e. its growth during the reign of Theophil and Theodora.

During the reign of Michael III there was a large decrease in reserves, so the emperor Basil I (867-886) was left the treasury with only 21,600 nomisma (300 litras). In order to pay his officials, Basil I was compelled to have the imperial golden jewellery melted to provide the sufficient amount of coinage for rogs. It is believed that the Middle Ages tradition of decorating palaces and churches with various objects made of precious metal, as well as sufficient production of large quantities of golden crowns, thrones, sceptres, were only partly aimed at promotion of rulers and its true aim was creating state reserves which could be activated in a crucial moment.

Very large state reserves were made by the emperor Basil II (976-1025). After his death, he left gold reserves in amount of 14,400,000 nomisma (200,000 litras). To illustrate how large these reserves were can be concluded from the information that the second most important empire of that time-the Bulgarian Empire, had gold reserves of only 720,000 nomisma available. It is assumed that large reserves could not be made of regular public revenues, or the growth of economy, but that the main source of enlargement was the war-plunder from successful victories of Basil II in the east. The smaller percentage of increased reserves was made by confiscations of the property that Basil II undertook as the punishment against some aristocrats who did not agree with his with his politics.

[28] C. Morrisson, op. cit., p. 941.

[29] N. Oikonomides, op. cit., p. 1017.

The first foreign loan of the Byzantine state was the loan that Ana Savoyska, the wife of the emperor Andronicus III Paleologus (1328-1341) arranged in Venice. The civil war was raging in Byzantium at the time, the civil war that the state never recovered from. As regent instead of her underage son, the emperor John V Paleologus (1341-1391) in later period the empress Ana pledged imperial jewellery with total weight of 609 gms in order to get the loan worth 30,000 ducats at an interest rate of 5% with the term of payment of three years. [30]30 As that loan was not repaid by Byzantium, imperial jewellery remained in the treasury of Saint's Mark Church in Venice.

The last foreign loan was arranged by the last Byzantine emperor Constantine XI in Genoa, in January 1453. To get this loan worth 9,000 perpers, the emperor pledged some imperial rubies.

Owing to all mentioned ways that helped the Byzantine State to fill the deficit in its finances, it rarely used the method of money debasement. However, this method was used in the times of the biggest budgetary crises- at the end of the 11th and during the 14th century.

Debasement and devaluation of the Byzantine golden coinage gradually caused harm to its position of the international currency. A large distrust towards perper appeared as early as in the mid-13th century, when its role of the international currency was increasingly being replaced by the new golden coinage of the Italian cities, especially the Venetian ducat. According to some saved Venetian documents, a presentation of foreign exchange rate of depreciating perper to Venetian ducat from the beginning of the 14th century until the fall of the Byzantine state (Table 14) was made.

Table 14: *Perper to ducat exchange rate from 1315-1452*

Year	Ducat expressed in perpers
1315	1.5
1323	1.75
1333	2.08
1367	2.00
1382-1391	2.50
1397-1411	3.33 (official exchange rate for trade boats)
1413-1420	3 perpers and 18 karats
1432-1452	3 perpers and 12 karats to 22 perpers and 22 karats

Source: C. Morrisson, op. cit., p. 966.

Foreign exchange rates shown in Table 14 are obtained from the ratio between minting rates of the perper and ducat, not from the real movement figures of the

[30] C. Morrisson, op. cit., p. 942.

exchange rate. As it is, the Byzantine perper depreciated in relation to the ducat during the whole period, so it does not surprise that it lost the role of the international currency.

11. Conclusion

All Byzantine emperors had the monopoly over minting coinage and tended to maintain monetary stability, not only by legal regulations, but also by keeping the stability of the monetary system. They used money debasement only when they could not cover state expenditures in other ways. There is the question of how and why there were fiscal deficits which caused the devaluation of the Byzantine money. It is especially surprising that there was a large solidus debasement at the end of the 11th century, due to the periods of economic expansions and relatively stable international, political affairs which could not cause large defence expenditure.

When the monetary and economic affairs are put within the context of general social relations at the end of the 11th century, it can be concluded that the main reason for financial and military weakening of Byzantium was the feudalization process which became very extensive at the end of the 11th century. The state treasury was losing large part of revenue on the one hand due to the decline of country estates and, on the other hand, giving privileges of fiscal immunity (eskusi) and pronies to feudalists. As the military power of the state by that time had relied on free peasants-soldiers (stratiots), who also were losing race with big property owners, the stratiot estates were disappearing, the class of stratiots as well, and therefore the Byzantine state was becoming weaker. That is why the Byzantine army started recruiting mercenaries again, who also increased the expenditure of the state treasury. In that situation, the state started raising taxes and the emperors of the Dukas dynasty even introduced the practice of selling official positions, so that they could fill the empty state treasury. All these measures did not lead to fiscal stability, so the emperors held to the only remaining instrument which was in their hands-the measure of money debasement.

Granting military positions to feudalists – proniaries since the dynasty of Comnenid dynasty (1081-1185) led to even bigger increase in their economic and political power, as the central power was simultaneously becoming weaker. When Crusaders headed by Venetians attacked Byzantium in 1204, its defence power depended on feudalists-proniars. The Byzantine resistance against Latin soldiers lasted while proniars were showing resistance. However, started to surrender under the condition they were allowed to keep their pronias. The Latins accepted the condition as they understood the system of pronia very well, which did not significantly differ from western feudalism. That is how the individual economic interests of the Byzantine feudalists made it easier for the Latins to conquer Constantinople and make their stronghold on the remaining Byzantine territory.

Debasement of the Byzantine money during the 14th century represents only the final result of the feudalization process, which became particularly intense under the reign of the Paleologus dynasty and reached its peak in that century. It is obvious from the state of the finances how weak the central power of Byzantium was at the end of the 13th and the beginning of the 14th century. Research has shown that the revenue of the Byzantine State in the early Middle Ages was 7-8 million of full value nomisma, whereas the revenue during the reign of Andronicus II Paleologus (1282-1328) hardly reached million perpers, which had two times lower value than earlier nomisma.[31]

The analysis of the monetary history of the Byzantine state shows that the state of monetary stability does not depend only on the economic power measured by the rate of economic growth, but also on the state of social relations in a state. With the process of feudalization, social differences were permanently rising and in the 14th century, they were tearing apart the whole society.[32] Everywhere in the Empire, both in the country and the city, all property was in the hands of a tiny class of aristocracy, whereas the central power was getting weaker and a lot of people were living in the highest poverty. Such conditions were leading to an increase in internal conflicts, permanent civil wars in the second half of the 14th century, which in the end caused a decline in economic activities and finally to debasement of the national currency.

The example of the monetary history of Byzantium leads to a universal conclusion applicable to all states, in any times. A national currency gets weaker if there is an imbalance between general and individual interests. The question remains how to strike and maintain this subtle balance. The answer to the question opens a new, interdisciplinary analysis, but a careful reader can discern the elements of that answer in the Byzantine monetary history described above.

[31] G. Ostrogorski, op. cit., p. 453.

[32] G. Ostrogorski, op. cit., p. 479.

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SOCIAL MOVEMENTS IN LATIN AMERICA: A HISTORICAL STOCKTAKING

Abstract: *At the beginning of the twentieth century, the peasant movements in Latin America had been seeking for agrarian reform while the urban workers' movements gradually constituted themselves more clearly as wage-earners' movements. Such set of social movements that arose over the course of the first decades of the twentieth century, with projects of their own, was to have an opportunity to approach power in the 1930s and 1940s with the constitution of popular and populist governments. Since the Cold War, anti-imperialism social movements have been giving motivation to the national struggles in the continent under the domination of U.S. capitalism.*

Key words: *Latin America, the peasant movements, the workers movements, anti-imperialism, globalization.*

1. The Origins: From the Anarchist Influence to the Third International

The classic social movements in the Latin American region had a strong anarchist influence, especially in their initial formative phase, through the European migration, mainly Italian and Spanish, in the late 19th and early 20th century. These anarchist immigrants in some cases headed for rural areas, but mainly to urban areas where they formed the first levies of workers' movements, basically artisans and workers in small economic undertakings. Anarchism presented itself as an ideology that was very appropriate to these workers' lifestyle since there was correspondence between the activities carried out by these artisans and small businessmen and the essential aspects of anarchist ideology. Since First World War and later during the 1920s, the expansion of manufactures in the region created conditions for the emergence of a more industrial proletariat, which was to have its full development with the industrialization processes of the 1930s.

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Anarchist movements experienced a major boom in the entire region between 1917 and 1919. Those movements took of the form of deeply significant general strikes that began a movement toward the unionization of the workers' movement, as in the cases of Peru in 1919, Brazil in 1917, Argentina in 1918, and Mexico also toward the same time. A generalized political climate was created that was favorable to the General Strike as the principal form of struggle. These general strikes did not, in some cases, have a clear objective, seeking a kind of dissolution of the State; in other cases, they might include specific demands such as the reduction of the workday to eight hours and improvements in wages and in laborers' working and living conditions, as was the case of the 1919 strike in Peru. Nevertheless, they were brutally repressed without being able to accumulate strength to grow in real labor union movements.

These strike movements were also stamped by the influence of the Russian Revolution, both the Bolshevik Revolution and that of February 10, 1917, and by the overall revolutionary process and the general strikes that had been characteristic of the 1905 revolution. The so-called "maximalist" Bolshevik current was, in general, composed of anarchists who thought that Bolshevism was a manifestation of anarchism itself. This view, under which Bolshevism was a form of "maximalism", was maintained until 1919-1920, when the Russian Bolsheviks confronted the Kronstadt sailors who had been one of the main supports of the 1917 revolution and who entered into clashes with the Bolshevik government, being tenaciously suppressed. Henceforward the anarchists began to move away from Bolshevism and the currents that remained faithful to it were to form the communist parties.

In sum, this movement was to mark the transition from anarchism, with the maximalist version that was destroyed along with the brutally suppressed general strikes, to the Latin American communist movement. Until the 1920s, despite the importance which the Socialist International had in Europe, the European social democratic parties did not manage to exert a significant influence in Latin America, save in Argentina which was the only country to have a representation in the Second International. As of the 1920s the region's workers' movement joined the field of Marxism with special emphasis on its version commanded by the Communist International.

1.1. The Peasant Movement

The peasantry lived under a strong domination by the landlords who subjected it to extremely negative conditions of cultivation and organization. Only the Indian communities had the means for self-management, despite the repression they suffered historically. They were the head of a popular insurrection that was a fundamental reference point for the entire region: the Mexican Revolution of 1910, which was to have an extremely significant peasant base. The struggle against Porfirism was a democratic struggle basically led by middle-class democratic parties, but which for need of a political base approached the peasants, in this way generating a very strong articulation between the peasant movement and the Mexican democratic struggles. There, too, a clearer link began to be established between peasant movement and Indian movement, which in the Mexican case had been very significant, although the peasant movements did not present themselves as Indian movements. Nevertheless, the leaders were articulated with their Indian origins, especially Zapata, who had strong representativeness as an Indian leader, despite not basing his leadership specifically on it. At that time, the movement was fundamentally oriented toward the land question.

Alongside this, it is also necessary to stress the specific role of the peasant movement, which managed to thrive in a relatively important manner in Central America in the 1920s and 1930s. At those times, the exploitation of wage-earning peasants, directly subordinated to United States corporations which organized them in export-oriented activities, already existed. This region saw the constitution of important bases for the struggle for agrarian reform, which, owing to the strong U.S. presence, was mixed with the national struggles against United States domination. Such was the case of Sandinism, of the revolutions in El Salvador, which were led by Farabundo Martí, of the Cuban mass strikes and, in part, of the Prestes Column in Brazil, although it did not have a peasant base but fundamentally a petit bourgeois one, which was to enter into contact with the peasant population, developing a certain interaction between that middle-class movement of military origin and the peasantry. Nevertheless, one cannot speak of a truly significant peasant movement in Brazil in that period.

1.2. The Workers' Movement

The Latin American workers' movement has been the other support of the popular forces on the continent and found its material base in the first wave of industrialization during the first decade of the twentieth century. We may say that it became consolidated into a much stronger movement in the 1920s, on the basis of Marxism Leninism, that is to say of the Bolshevik influence and of the Russian revolution which superseded the Second International and anarchism, although the latter had marked its germinal phase. This aspect is very important for shaping the principal features of the Latin American workers' movement, especially from the ideological point of view.

In parallel fashion with this phenomenon, there existed some relatively important mining areas with a wage-earning proletariat that had considerably more collective demands of its own, whose formation had less of an anarchist influence. Maybe this explains the fact that in Chile there existed a Democratic Party with a very significant mine worker base, before the shift of those workers toward the Chilean Communist Party, something which also endowed this party with differences with regard to the rest of the Latin American communist parties, because it was born of a not specifically anarchist base, within a political conception closer to social democracy, although the Chilean Democratic Party wasn't actually a social democratic party but a party closer to radicalism, corresponding to the petit bourgeois parties of a liberal type. In other countries of Latin America there also existed major miners' presences, as in the cases of Peru, Bolivia and Colombia.

This set of movements up to the 1930s was to define a platform of demands by the region's social movements, including in the first place the land issue, hence the importance of the Mexican revolution; the mining question, which represented the national issue, that is to say the ownership of the mines or a participation by the States that shelter the ores in the profits of the mines; the wage issues which were already articulated with the other demands, particularly in mining areas and in proletarian urban areas, especially when the urban workers' movement gradually constituted itself more clearly as a wage-earners' movement.

2. Populism and the National Democratic Struggles

The set of social movements that arose over the course of the first decades of the twentieth century, with a cultural base of their own, with projects of their own, were to have an opportunity to approach power in the 1930s and 1940s with the constitution of popular and populist governments. These governments sought to find support in these popular bases and to structure this movement in the context of a vast national democratic struggle, integrating all these social and cultural forces within a movement of national democratic content which was to show solidarity with the Afro-Asian anti-colonial movements after the Second World War, but which had already incorporated many common positions within the anti-imperialist movements of the 1920s up to the Second World War. The communists managed to place these diverse movements within the same national democratic logic as the anti-colonialist struggle progressed.

After the First World War, as governments were set up that were closer to these movements, the latter gradually articulated more closely with the national States. A clear example of this process is the Mexican case, which already by the 1920s showed us how the peasant and workers' movements were articulating with the PRI (Party of the Institutional Revolution) and with the government of the Mexican revolution.

The social bases no longer were the immigrants, but the urban workers of the industrialization process of the 1920s. This workers' movement was to tend toward a break with the previous movement. In some places, as in the case of Argentina, there was a clearer expression of a certain rejection of the old radical workers' movement by the new proletariat of peasant origin, rural migrants without ideology. These new workers were to come much closer to the leaders of the industrialization process moving toward the so-called populist movements: Peronism in Argentina, Varguism in Brazil, the Mexican case itself, despite the more radical nature of Cardenism, which established support on a more solid background on the basis of the Mexican revolution. But Cardenism was, in a certain way, an expression of the link between peasant movement and workers' movement and other social movements, such as that of the students, with national democratic goals. During the 1940s the phenomenon of populism began to gradually consolidate. It was the case of Chile, during the government of the Broad Front, which was openly composed of left-wing parties: the Socialist Party, the Radical Party with a more democratic origin, and the communists. In this phase the Chilean Socialist Party managed to absorb a greater part of Chile's young workers' movement and approached the communists. The unity between socialists and communists was to be set up only in the 1950s, with a crucial moment in 1952, with Allende's first candidacy.

Also achieving a presence in this new phase was the Bolivian revolutionary movement, which was to cause miners and peasants to converge in the struggle for agrarian reform, the nationalization of the mines and constitution of a radical mass democracy. All this became possible despite the mistrust between the two parts. The miners always thought of a land reform based more on collective ownership of the land, while the peasants defended rural smallholdings, and this triggered differences that sundered the revolutionary movement. Historically, in the 1960s there was a counter-revolution based on the peasant and Indian movement, against the miners, who also sought support from urban workers, a split taking place in the so-called worker-peasant alliance. In the Mexican case, peasants and workers basically continued within the Mexican revolution; a major part of the land was collectivized so that the peasant movement retained a relatively socialist outlook, although Mexican indigenism always sought to stress the dangers of this collectivist conception considered inefficient, bureaucratic and authoritarian.

In this way, the national democratic profile was sharpened as the shaper of the new working class. Depending on the capacity of communists and socialists to indoctrinate it in a socialist perspective, it became possible to articulate the national question and the anti-imperialism which gave motivation to the national struggles in the continent under the domination of U.S. capitalism. The U.S. domination was expanding in the world until this country turned into the hegemonic center of the world system after the Second World War. The Alliance between the Soviet Union and the U.S. during the Second World War extended until 1947 when the Cold War policy transformed the former allies into enemies. As of that moment the U.S. was transformed by the communists into the enemy of the workers, while the U.S. intelligence services worked to break up the alliances among communists, socialists and social Christians which had been implanted during the Second World War. As the imperialist character of United States policy, which had been forgotten during the anti-fascist Democratic Alliance, became evident, a new anti-imperialist front began to be developed, reaching its highest point in Brazil in the late 1950s, after the suicide of Getulio Vargas, threatened with impeachment, and in the Kubitschek-João Goulart government. In this period the communists, declared illegal in 1947, after only two years of legal political action, again became semi-legal in the first four years of the 1960s, particularly during the government of João Goulart, between 1961 and 1964. At this time the thesis of unity between the national bourgeoisie and the popular worker-peasant-student movement turned into a fundamental strategic principle. This conception was however defeated by coups d'état such as those of 1964 in Brazil, that of Onganía in Argentina (1966) and new militaristic experiences like that of Hugo Banzer in Bolivia.

In this same period a new strategic reality was emerging in Latin America. Cuba's proclamation as a Socialist Republic in 1962, in response to the Bay of Pigs invasion, introduced the issue of socialism in the region as an immediate form of transition toward a new, collectivist economic and social system. This new experience went on to influence significant sectors of left-wing political forces, reaching its most elaborate expression in the socialist program of Popular Unity in Chile. Between 1970 and 1973 an absolutely unprecedented experience was attempted in that country: carrying out a transition toward a socialist system of production under conditions of democratic legality. This experience introduced a new dimension in the workers' movement of the region and of the entire world.

The violence of the repression by the military governments imposed in Chile and in other countries contrasted with the experience of a national-democratic military government in Peru, launched in 1968 by Velasco Alvarado. The return of Peronists to legality in Argentina and their overwhelming victory in the elections of 1972 had generated panic in the dominant classes and in the imperialist power centers. It was total disaster if the eminent defeat of the United States in Vietnam was considered. More than ever, repression and State terror were developed to their most radical forms. There is no doubt that the fascist terror inaugurated by Pinochet and deepened by the Argentine coup leaders took repression in the region to the point of paroxysm.

Despite the mass strikes of the workers of the large export-oriented farming corporations – which supported Sandino or imposed the mass strike in El Salvador – the peasant movement only reached a significant victory during the revolution in Guatemala with Arbenz in 1952 and particularly with the Bolivian revolution when the peasant and miners' militias took over the leadership of the country. In the 1950s the Peasant Leagues led by Francisco Julião were launched in Brazil. In the 1960s the anti-insurrection strategy commanded by United States military officers finally absorbed the proposal for an orderly agrarian reform that was applied especially in a Christian Democratic Chile under the presidency of Eduardo Frei.

This agrarian reform became more radical, complete and thorough in the years 1970-73 under the Popular Unity government, with Salvador Allende as president.

Over the course of all these years, the demand for land was at the center of the popular struggles and of the worker-peasant alliance, with strong support from students and from sectors of the urban middle class. These demands led to the Sandinist revolution in Nicaragua. It may be said, nevertheless, than in the 1980s and 1990s multinationals' strong control over agricultural output in vast regions of the continent dramatically changed the meaning of the peasant struggle. Between 1960 and 1990 a process of emigration from the countryside to the city was completed which definitively expelled vast layers of agricultural smallholders and consolidated the large and medium-sized agroindustrial corporation, articulated with the agricultural or agroindustrial transnationals. The figure of the seasonal agricultural wage earner was developed and there emerged a new peasant movement of a union nature, with little pressure on the land.

The Brazilian case is paradigmatic: the *boias frías* (so called after the cold food they carried for their elementary meals in an ultra-specialized and mechanized agricultural space) flooded rural areas and only in the 1980s did a demand for land re-emerge as unemployment increased in rural areas and small towns, generating an unemployed population that sought to return to the land. From here there emerged the Landless Movement (MST), which presses for a more vigorous land reform but does not challenge the country's legislation on land which orders the purchase of uncultivated land at market prices for distribution among landless peasants. The strength of the MST is derived not so much from the radicalness of its demand for land as from its method of occupying it to force land reform and from its methods of community management of the land it takes over, as well as its socialist conception of an economy in which peasants can achieve their full development. Its concern with cutting-edge farm technology, with environmental issues and with education for its members and their children place it in the vanguard of Brazilian society. Its main struggle banners are summarized in *land, water and seed*, ion the struggle for Brazilian food sovereignty. Its members thus gird for battle with the agroindustrial transnationals within a long-term outlook that shocks Brazilian conservatives.

It is necessary, however, to stress a new phenomenon which makes this long-term conception of the Landless Movement possible: it enjoys the strong support of the Pastoral Land Commission in Brazil. The Church has decided that it cannot turn over the world's largest Catholic country to the viciousness of that country's exploiting elites. An anti-Catholic social revolution would be a definitive blow within Catholicism as a religion with pretensions of universality.

3. The ethnic issue

Totally new issues were incorporated in this phase: indigenism, seen not only as such but as peasant cultural criticism, in which the peasantry also reaffirms its conservation and not simply its elimination within a superior society. The ethnic issue appears in two separate currents, the peasant-Indian and peasant-black ethnic issues. It is necessary to trace a distinction between the two trends because blacks formed a fundamentally peasant movement, which took on the struggle against slavery and against Spanish domination in Cuba, and participated in the Cuban revolution and in the liberation processes of other countries of the region.

Blacks organized very easily and reached the point of constituting a very important part of this non-European, non-socialist workers' movement, but one framed within this populist current. Although communists in some places established an important base in the black movement, they always denied the specificity of this movement and were against the idea that it should take on a specific form. The proposal always was that they should join the struggles for civil liberties, thus denying their ethnic content. The ethnic vision of the black issue was only to achieve projection as of the 1960s, taking as one of its main reference points "black power" in the United States, where a rupture took place in the views on civil rights, and blacks maintained they did not wish to be equal to whites, their struggles thus not being for equality with whites but for the right to be black. This perspective was expressed in the idea that "black is beautiful".

The ethnic content of the indigenous movement was reborn in the 1970s, when Indians reaffirmed their origin as an ideological structure for contemporary social struggles, and demanded the leadership of guerrilla movements. Indigenism appeared strongly in Latin America in the 1970s in the Guatemalan struggles, in which they established it clearly that the guerrilla warfare was led by Indians, despite outside participation, always subordinated to the indigenous leadership. This current was to acquire clear expression in Mexico, which later was to see a special manifestation in Zapatism, in which the indigenous current takes on the character of an ideological position of its own, which has its indigenist inspiration but also has a universal goal. This American indigenous recognition and identity is a very deep and expressive phenomenon, which also seeks to be global: indigenous peoples of different parts of the globe seek to form a movement in which indigenism is related to an ecological standpoint, with a strong relationship with nature, with an ideology opposed to capitalism and also to the Stalinist currents of Marxism, alleged progressive forces which see progress as a road that eliminates previous forms.

4. The Autonomy of Social Movements and the New Forms of Resistance

Twenty-five years of neoliberal experience, commanded at international level by the IMF and by the World Bank, sank Latin American countries into grave economic problems that put the region's social movements on the defensive. Unemployment, inflation, the drop in wage levels, the lack of investment be it productive, infrastructural or social, and the absence of new jobs as a consequence of this situation form a set of phenomena that gradually destroy the social tissue, destructuring institutional loyalties, breaking social ties, opening the way to violence, drugs and criminality in their diverse forms of expression. The main weapons of the workers' movement, such as strikes and other forms of interruption of work, lose strength insofar as large masses of the unemployed or of new arrivals in the workforce are always ready to replace the active workers. The possibility of street struggle acquires certain vigor until weariness and confrontation with ruthless forms of repression cause the retreat of the movement, which gradually loses its goals and leaves the way open for the action of the "sub-proletariat" which does not enjoy organized and consistent fighting programs.

These years of recession were also combined with a similar period of institutional repression and "régimes of exception" based on forms of State terror. In actual fact, these régimes began before the phase of systematic recession. The latter was to take place in the 1970s but was delayed by the inflow of foreign resources in the form of international loans at a low price as a consequence of the recycling of petrodollars. In the 1980s the demand began for the immediate payment of the interest – increased owing to the growth of the principal under the form of irresponsible "renegotiations" of the debt and enlarged because of the rise in international interest rates following decisions adopted by the United States Treasury.

This combination of successive recessions, régimes of exception, State terrorism and reduction of the workers' standard of living was followed by an ideological offensive opposed to workers' conquests and to the improvements obtained by the population as a whole over the years of economic growth. The neoliberal ideological offensive reached its zenith in the second half of the 1980s, with the defeatist policies of the political leaderships of the Soviet Union and Eastern Europe. Starting with the fall of the régimes of the so-called "real socialism" a neoliberal ideological offensive was instituted that set up a real ideological terror. Anyone who posited a criticism of capitalism or of the chimerical "free market" was immediately segregated from the mass media. It was the period of the "end of history", of the end of socialism and of Marxism.

Over the last twenty-five years the region's social movements have therefore been under the impact of critical situations. However we must not blame them on the basis of the economic difficulties, since it was possible to overcome the latter with policies of preservation of the national interest, refusing to pay a highly questionable international debt and totally insane interest rates. Nevertheless the interests prevailed that were linked to payment of the service on the debt, to the renegotiations of the latter and to the immense commissions in hard currency that they paid. A typical "purchasing" bourgeoisie gained strength in the region in this period, one which gradually superseded local capital, precluded by the neoliberal policies from obtaining advantages from the changes in world trade which where almost wholly exploited by the Asian countries that did not depend so directly on international loans for maintaining their policies for exporting and for economic growth. Assisted by thorough agrarian reforms, carried out in the post-Second World War period, those countries enjoyed vaster domestic markets and deep-going educational policies that sought to neutralize the influence of socialist régimes in Southeast Asia. It is therefore natural that the workers' movement should have been reborn in the region during this period under more cautious forms seeking the support of liberals and of the Church, which moved away from the dictatorial régimes it had favored in the past, now taking up the banners of human rights, of amnesty and of the re-establishment of democracy.

In this environment, neoliberal proposals found fertile ground and became totally rooted by virtue of the self-destruction of Soviet and Eastern European socialism. In actual fact the neoliberal conception definitively entered left-wing parties achieving its most sophisticated formulation in the so-called Third Way that was made explicit in the 1990s. It was a question of articulating the thesis that there is no alternative to the neoliberal conception of economics. Such economics would express the efficiency of the free market which nevertheless does not guarantee workers' social rights. It would consequently be necessary to combine economic neoliberalism with a program of social policies (or compensatory policies, as is posed by the IMF and World Bank upon accepting the "provisional" negative effects of the "transition" to the "free market"). The theoretical and practical weakness of this proposal was evident and it was quickly abandoned as neoliberalism became ever more unsustainable both on the theoretical-doctrinal and on the practical level.

The workers' movement still finds itself under the effect of this ideological confusion but it has regained a major part of its political capacity during the sustained economic growth from 1994 to 2000 when unemployment in the United States fell from 12% to 3.4%. The demonstration of the possibility of returning to full employment triggered a rebirth of U.S. labor militancy, including the reorientation of the AFL-CIO labor confederation toward progressive theses. In Latin America the workers' movement of the period was on the upswing only in Brazil in the 1970s, part of the 1980s and isolated moments of the 1990s. The explanation of the loss of combativeness of the workers' movement in recent years is found in the difficulties in coexisting with the rising unemployment ensuing from the permanent recessionary situation.

At the same time, social movements are ever more affected by the emerging social forces. This is the case of the gender, indigenous, black, environmental defense and other movements. They impose new issues on the agenda of social struggles. Their starting point takes on liberal forms, expressed in the defense of voting rights, of legally guaranteeing their rights on a basis of equality with the dominant male fraction, of a revaluation of their own characteristics, of recognition of their identity and their ethnic characteristics as a substantial part of national culture. Over time, these claims become part of an entire cultural project that demands a break with the economic and social structure that generated machismo, racism, authoritarianism. A substantial identification is found between the capitalist mode of production, as a historical phenomenon, and these cultural forms that deeply penetrate the entire superstructure of modern society. The roots themselves of these sores are found in the pretensions of an enlightened rationality having the West as birthplace and that would justify colonialism, substantially despising the importance of the cultures and civilizations of the Orient and of pre-Columbian indigenous communities.

Lastly, during this phase it is necessary to stress two fundamental characteristics: in the first place, the identity of social movements is beginning to claim a certain autonomy; it goes beyond the framework of communist parties, of national-democratic and developmentist demands, to take on a quite significant autonomy, which gives origin to and is linked to the civic issue of the struggle for civil rights and mingles with the fight against the dictatorships of Latin America. This will be one of the main trends among the NGOs, so that an interaction is beginning to take place among these movements with relative autonomy from political parties, and the NGOs back this autonomy. In the second place, a trend appears toward the forming of political parties on the basis of these movements. The most advanced expression of this trend is the Workers' Party in Brazil. There also exist other political organizations impregnated with this ideological view, a civil society that is taking shape and projects on the State the great issue that civil society still has not solved: insofar as it grows and gains in importance, its relation to the State ceases to be merely critical to also exert hegemony over the State. As of that moment, the critical posture is transformed into a positive posture, which is expressed in proposals for State policies and which has been constituting a new, developing phase in the design of a new program of public policies that absorbs part of the previous national democratic-developmentist program but with significant criticism that includes these new ecological demands, democratic ones in terms of political participation; this autonomism turns into a more democratic demand and the exercise of influence on power. All of this gradually constitutes a new political space that has not solved its contradictions between autonomy and State action, between democracy in the sense of autonomous affirmation and the sense of State action, between autonomous demands and public policies and the power to transform material conditions.

5. The Globalization of Social Struggles

After Seattle in 1999, the meetings of the World Social Forum in Porto Alegre and the mass demonstrations that followed them in several parts of the world, a new reality of social movements is already emerging that indicates dynamics that aren't solely defensive but also offensive. This phenomenon was already inscribed in the mobilizations of 1968 but acquired a special meaning after the fall of the Soviet camp when social struggles attained the dimension of a gigantic movement of civil society against neoliberal globalization. Its articulation with political phenomena becomes more evident and is expressed in the rise of new forms of insurrectional struggle, like Zapatism in Mexico and its international ramifications at the summons to the struggle against neoliberalism, which attracted personalities from the entire planet; and the emergence of Indian resistance movements that ended up toppling governments and giving rise to new parties and governments as in Bolivia and Ecuador; the election success of the Workers' Party in Brazil, Uruguay and Venezuela which emerged from an articulation among social movements. All these Latin American phenomena form a new wave of social transformations that has strong roots in the new social movements and that in its articulation with the forces of the classic social movement, with the evolution of the left as a whole and even with the nationalist sectors of the dominant classes produces a complex historical project still under construction which is also expressed in the integration processes accompanied by an increasing diplomatic density among Latin American governments.

The alternative program that is being outlined in the region cannot be restricted to economic and cultural resistance, particularly when the history of Latin America is undergoing a lengthy period of economic stagnation with the abandonment of the national democratic developmentist project confronted with steel and fire by imperialist repression and by a major part of the local dominant class; when the history of this period mingles with the brutal domination of financial interests over the economy, placing productive forces at their service, and even the State which increases its intervention to transfer resources toward that sector; when all this is done in the name of a reactionary ideology that present itself as the cutting edge of modernity and as the "dominant thinking", the result of the end of history. In these circumstances the alternative program must take on an overall character, that of a new theoretical and doctrinal framework that proposes a new society, a new economy, a new civilization.

While this decades-long task unfolds, partial struggles take shape that acquires an ever more substantial character. Regional Latin American integration, for example, acquires concrete dimensions in MERCOSUR, the Andean Community of Nations and the ALBA and South American Community project which enjoys the substantial support of the Bolivarian ideal. At the same time, this ideal is converted into State and government doctrine in Venezuela, inspired by the dynamics of participative democracy deeply articulated with the logic of the social movements.

Many ideological, political and cultural novelties are still to emerge in this new context. Lula's electoral process in Brazil saw the coming together of hitherto unarticulated social sectors in search of a new historical block that would articulate productive forces against the domination of financial capital. A similar profile was outlined in Argentina after the great mass movements that radically challenged the neoliberal program. In the entire region there is talk of a new developmentism that seeks to create the conditions for a new economic policy that partly restores the issues and the agenda of the 1960s and 1970s, adapting the latter to the new conditions in the world economy. What matters is political will; the technical aspects are secondary and easily overcome by the thorough development of the region's experts.

There are several concrete manifestations of the new proposal that will need to supplant the intellectual barbarism of neoliberal liberal thinking and that will incorporate the region into a new political and ideological reality. This new proposal opens a debate on the great issues of the fate of humanity and social movements will represent the fertile ground from which will sprout the ever more radical solutions since it will be the roots that are at stake: social inequality, poverty, authoritarianism, exploitation. This entire agenda will again be on history's agenda.

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ETHNIC GROUPS AND TOURISM – SOCIAL INFLUENCE OF TOURIST GROWTH ON THE MAPUCE POPULATION OF SOUTH ARGENTINA*

Abstract: *A deep economic crisis that Argentina is facing has obviously stricken the tourist industry, especially small and medium-sized enterprises. In a search for new attractions that may draw tourists, the local authorities of the Indian community in the province of Neuquén in the north of Patagonia in the Republic of Argentina have created an ambitious project on eco-tourism development called "International Neuken Towards the Third Millennium" or Neuken 2020. The Mapuce Indians, who make their living by extensive cattle breeding, wood collection and wood sales, are the most numerous group among the Indian communities in Neuquén. The growth of eco-tourism would certainly bring them economic prosperity, but there is an open question of whether this project is plausible, if we consider their inferior position in the regional and national inter-ethnic system.*

Key words: *Argentina, The Mapuce Indians, eco-tourism, land ownership.*

1. Introduction

The purpose of this article is to make an analysis of different tourist projects carried out in recent years in Indian communities in the province of Neuquén on the north of Patagonia in the Republic of Argentina. This study in a way a totality with other research we have carried out since 1988, also in the area of north Pat-

* *Translated from Serbian by Maša Stojičić.*

agonia, whose subject matter relates to the influence of large investment projects (hydroelectric dams, production of carbon dioxide, etc) on Indian community.[2]

A process of investment undertaken in the region mentioned above aimed at fulfilling large infrastructure projects and exploiting unrenewable resources, was necessarily followed by the sales of newly built premises. At the end of an investment cycle, there were huge energy constructions and exhausted natural resources in the market. This process often had profound socioeconomic consequences, such as unemployment, loss of services, a reduction on local authority budgets, abandonment of local production activities, and disturbance to the household economy.

After fifteen years of research on issues considering the investment in and then the sales of property in north Patagonia, it seems important to focus on specific details of one branch of economic activity, vital for this region, which is tourism. This activity has gained larger importance in Argentina recently, especially since the 2001-2002 crisis, owing to the incentives in applying foreign exchange rates in relation to the 'hard' currencies such as the dollar and the euro.

We emphasize usually the economic importance of tourism and we stress that it is getting more important worldwide. According to the International Tourism Council, the turnover in this industry was 3.4 billion U.S. dollars or 10.8% of GNP on a global scale.[3] The same source mentions that this industry has attracted 600 million tourists and provided 55 million work places in the whole world. The tourist industry has made a record of continuous growth for a few decades. In the period from 1970-1990 the tourist industry has recorded a growth of 260%. According to the World Tourist Organization, the 763,000,000 people travelled abroad in 2004.[4] In fact, the predictions announcing that the 21st century is going to be an era of large growth in tourist activities have been repeated and this industry is considered to be the biggest resource of jobs in the whole world.

We also have to take into account that proposals related to tourism change their form depending on the epochs and places considered. Now, one often-discussed option is the promotion of eco-tourism that can have various subtypes:

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2 Studied cases were on the influence of the construction of hydroelectric dam *Pedro Del Anguilla* in the reservation *Pilquiniyeu del Limay* of the Mapuce Indians *in* the province *Rio Negro* and on the process of migration which followed at the beginning of the 1990s. Then, the influence of the construction of the dam *Michihuao* on the locality *Naupa Huén* at the river basin of the river *Rio Negro* has been studied. Also, the evaluation of the migration process undertaken on the bank of the Colorado river due to the construction of the dyke *Casa de Piedra* and reallocation of the settlement *Picún Leufú* in the region of Neuken has been made. Damage caused by the exploitation of carbon dioxide in the deposit *Loma de la Lata* in Neuken among the Mapuce groupations *Painemil and Kaxipayiñ.*

3 L. Dalbuit et al., "Impacts of Ecotourism in the Mundo May, *YUMTZILOB*, Vol. 11, No. 1, Leiden, 1999, pp. 53-71.

4 S. Jalfin, „El turista: elige tu propia aventura" in: "El turismo es un viaje", *Ñ, Revista de Cultura*, No. 120, 2006, pp. 6-9.

archaeological tourism, ethno-tourism, environmental tourism, adventurous tourism, village tourism.

However, the policy on the culture of specific countries does not include ‘cultural tourism’ as a separate aspect. However, as D. Jelinčić points out: “Culture is usually the main reason that makes a visitor come to a place, especially if the culture is widely defined.”[5] Therefore, many tourist packages include cultural aspects as part of their offer, which makes us consider, as N. Garcia Canclini, that “tourism, together with the industrialisation of culture (...) is where common issues of cultural and commercial heritage become most problematic”.[6]

According to D. Jelinčić, on the other hand, “tourism is a guarantee of sustainable development and it is closely related to encouraging small and medium-sized enterprises in tourist activities. In this sense, tourist business represents a local lifestyle, so it is likely that it will provide the quality of tourist visits, as well as the quality of life for local people.”[7]

2. Anthropological research on tourism

From an anthropological point of view, showing the exotic as a subject for research was initially the purpose of such discipline, as R. Keesing claims: “We, anthropologists, have personal interest within the discipline to portray culturally built worlds of other people as radically different from our own. We deal with the exotic.”[8]

Different currents agree on the idea that we can observe tourist offers from the angle of cultural contact on a micro plan, as well as from the angle of transcultural communication and exchange.[9] The first theory bases on the perception that the interaction between the tourists and local population, individuals belonging to different cultures, can produce unexpected effects of different intensity on the receptive societies. In that sense, many authors approach this issue as a relationship between two types of society, opposite and unrelated. They start from the assumption of the ‘bipolar myth’, whose roots can be traced in the theory of modernisation. Conceptual contents of this theory bases exclusively

5 D. Jelinčić, “Croatian Cultural Tourism Development Strategy” in: D. Jelinčić, ed., “Culture: A Driving Force for Urban Tourism – Application of Experiences to Countries in Transition”, *Proceedings of the 1st International Seminar, Dubrovnik*, May 18-19 2001, Institute for International Relations, IMO Culturelink, Zagreb, pp. 3-6.

6 N. Garcia Canclini, “El turismo y las desigualdades”, *Ñ, Revista de Cultura*, No. 120, 2006, p. 8.

7 D. Jelinčić, op. cit., p. 5.

8 R. Keesing, “Anthropology as interpretative quest”, *Current Anthropology*, Vol. 28, No. 2, April 1987, pp. 161-176.

9 B. Howell, “Weighing the Risk and Rewards of Involvement in Cultural Conservation and Heritage Tourism”, *Human Organization*, Vol. 53, No. 2, 1994, pp. 150-159.

on North American culturalism and as such, one cannot consider it as a socio-cultural expression of the contemporary society on a global scale. Therefore, most North American anthropological pieces of work on the issue of tourism are monographs that tend to value negative consequences that tourist projects can suffer outside their local communities, on the spots of their realisation. Other authors who start from possible conflicts that follow the growth of local tourist industry discuss a permanent and problematic tension between the development of tourist projects and struggle for control over local resources.

On the other hand, for some authors, eco-tourism is a form of sustainable development which provides an opportunity for obtaining socio-economic and ecological benefit on the local and national level and besides, it provides the protection of both cultural and natural resources. However, for other researchers eco-tourism in its different forms and as part of the sustainable development acts as hegemonic discourse of globalisation, joining, in a new way, nature and capital. From this perspective, we can consider sustainable development as the new strategy of exploiting resources, based on concepts that approve of intervention policy for the sake of natural environment. Applying these ideas creates new forms of devastation of natural and cultural environment in the so-called third world countries.[10]

In a different order and using description and case study analysis, A. Oliver–Smith and others, made research on the influence of the international tourism on a locality in Costa del Sol in Spain and pointed out that such influence could be very complex.[11] These authors show a need to make an investigation into factors such as the scale of tourist projects, the way of introduction of these projects on the local level and the influence on members of local communities. Besides, they indicate the need to differentiate those projects that are undertaken as a result of local planning and management from those introduced from outside. They also emphasize those aspects related to the clash of local interests in the tourist industry with the interest of foreign investors. These conflicts especially relate to the risk of losing control over the resources of the local community and vulnerability of its inhabitants to external forces in relation to the tourist programmes controlled by translational companies.

It is obvious that the emphasis of anthropological work on tourism issues is on the 'small-scale societies'. M. Mansperger in his comparative analysis investigates characteristics of the influence of tourism on various peoples in different geographical areas.[12] In this study, Mansperger defines and classifies positive and negative influence of the growth of the tourist industry. He defines as positive influence foreign exchange inflow created by selling tourist services,

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10 L. Dalbuit et al., ibidem

11 A. Oliver-Smith et al., "Tourist Development and the Struggle for Local Resource Control", *Human Organization*, Vol. 48, No. 4, 1989, pp. 345-351.

12 M. Mansperger, "Tourism and Cultural Change in Small-Scale Societies", *Human Organization*, Vol. 54, No. 1, 1995, pp. 87-94.

economic growth enabled through the creation of infrastructure and new jobs, as well as the protection of local cultures thanks to specific activities undertaken in that sense. Mansperger labels as negative influence violent relocation of people, problems created in local management, degradation of the environment, inflation on the micro plan, social conflicts, crime, prostitution, loss of autonomy, and increase in dependence on the outside world. He also points out the fact that local interest groups do not see the benefit created by the growth of tourism. Finally, Mansperger gives a series of proposals with the purpose of alleviating and controlling negative influences usually created by the growth of tourism in small-scale societies such as Indian communities. He points out in the first place that the size of a tourist project should be reasonable; on the other hand, there is a need to create a methodology of guiding tourist groups to avoid the invasions of tourists into local communities. Besides, Mansperger points out that the participation of indigenous local people in planning and deciding on tourist projects is of crucial importance. However, what is of prime importance, according to the author is protection of land and its use by local communities as a defence strategy against intrusions of this type of projects. [13]

B. Howell analyses programmes of preserving cultural heritage in the U.S.A. and their relation to tourism. She indicates that in many circumstances, when the society faces a sudden rise in the tourist industry, there is a demand for anthropologists who would work in new roles of counsellors, so that those tourist projects that involve a dimension of cultural heritage are carried out.[14] The author also discusses a very common issue of anthropology, such as the role the anthropologists should undertake in this type of project. According to Howell, it is a task which represents a connection between the 'cultural conservatisms' and "anthropology of development", a kind of "Bermuda Triangle (…) with ethical and intellectual dangers" that anthropologist are supposed to solve and explain, which is not easy.[15]

In the second type of research, such as the research by J. Abbink, the focus is on understanding of the connection between tourism and globalisation. This author perceives tourism as a form of 'avant-garde globalisation', whose ideological implications tend to covert into a hegemonic system of images, which would operate excluding divergent points of view.[16] J. Middleton, on the other hand, considers commerce in connection with tourism to be" (…) the final form of colonialism."[17]

From a similar perspective, a semiotic approach to the issue of tourism defines tourist experience as first characterised by a kind of "urge for authen-

13 Ibid.

14 B. Howell, ibid.

15 Ibid., p. 150.

16 J. Abbink, "Tourism and its discontents. Suri-tourist encounters in southern Ethiopia", *Social Anthropology*, Vol. 8, No. 1, 2000, p. 3.

17 J. Middleton, *The world of the Swahili. An African mercantile civilisation*, Yale University Press, New Haven, 1991.

ticity", which necessarily leads to the adoption of "(…) a hegemonic strategy of taming the exotic".[18]

On the other hand, as we mentioned in previous passages, superficially inoffensive "chimney-free industry", as such economic activity is eloquently defined, produces multiple bad effects on local population, mostly native people, indigenous Indians or natives, by the term we use to define them. We can illustrate all this by various cases from different places from all over the world where native population is the most imperilled. It is obvious that the tourist industry can become destructive as any other type of projects when one does not take into account the interests, needs and expectation of the population whose lives are influenced by the realisation of such projects.

According to *Tourism Concern,* an NGO from the United Kingdom, tourism is a form of free trade of services with big privileges for different companies. This NGO has conducted a series of campaigns in various places in the world in order to implement tourist projects in a fair and sustainable way, showing respect for local population.

Governments of many countries see their own economic benefit from tourism that go beyond potential damage that this industry can cause. Having said this, the ideological legitimacy of tourist activities is particularly respected. Namely, it is often attempted to define tourism as an activity with "no contamination or any harm" and "the fast generator of foreign exchange". There are also those who make 'hierarchisation' of types of receptive tourism in various fields, which is often wrong, as "to believe that everything is ok if tourism is made elite means to hide intercultural conflicts, to confront differences and inequalities that globalisation intensifies in all fields".[19]

3. Current situation for the Mapuce population

The Mapuce ('people of land') are one of the most populated Indian tribes in Argentina. However, it is difficult to determine precisely the total population, due to the absence of trustworthy statistics. Namely, the national census did not take into account the variable of ethnicity in all questionnaires[20] and the only American Indian census from 1966 used inappropriate methodological criteria to describe native communities, which resulted in the wrong quantification of the Indian population from the whole country.

18 J. Abbink, op. cit., p. 3.

19 N. Garcia Canclini, op. cit., p. 8.

20 The national 2001 census was the first to include a question related to the Indian variable and it was opposed by most Indian organisations in the country, because of their bad participation during the time the change was being applied.

However, the Indian census mentions a figure of 33, 3% of the Mapuce Indians. Yet, it failed to register both the scattered village population and migrants who are in different urban centres of the Patagonia region, who have significant demographic weight. We consider, having founded our opinion on partial estimates and meagre statistics, that the previously mentioned figure should be at least three times higher.

The Mapuce live in both rural and urban regions of the provinces Chubut, Rio Negro, Neuken, La Pampa and Buenos Aires, mostly mountainous areas and plateaux, which correspond with Patagonian provinces and also with other provinces in some enclaves. They live on village estates of different ownership structures. Some live in reservations, some live on taxed land, and they pay taxes to provincial authorities. In other cases, the Mapuce groups have been located on the land granted to the Administration of National Parks.

The first important economic activity of the Mapuce group is extensive cattle breeding. The most often kept animals are goats (animals that are adaptable to the environmental conditions of certain zones of the analysed region), the next in order of importance are sheep, horses, and, when environmental conditions allow- cattle.

Cattle breeding is often supplemented by gardening, which is how they get various sorts of legumes and vegetables and in smaller quantities dry feed, which is often used in winter period, when there are no fresh pastures.

Other important economic activities that groups of native population do are gathering and sales of firewood and crafts (firstly, the skill of vertical weaving, making wood objects, and less often silver craftsmanship). In some mountainous communities in the Andes in the region of Neuken, people gather *piñones* (*Aurcaria Araucana*) – fruit they call 'pewen' in the aboriginal language. Also in most reservations, native population practice hunting different types of fox in winter, with the purpose of selling precious fur.

The connection of Indian communities with markets has been established as the system of unfavourable terms of trade. The Mapuce peasants that farm only one estate, without the possibility to take out a loan and with limited use of technology, produce small quantities and they make the social sector of the lowest negotiating power in the market.

It is important to consider the isolated and distant position of most reservation. A difficulty to get closer to the market due to poor communication network makes it impossible to have direct sales of goods in the nearest urban centres, so the native population are continuously dependant on intermediaries. The only thing that could stop such dependence is direct sales because intermediaries are in fact the only canal to provide raw material and reach the customers. Simultaneously, intermediaries are the only sponsors of the production cycle for an indigenous group.[21]

[21] What we mean by the term indigenous "(…) the system of social relationships which, based on the principle of mutual life, regulates and guarantees the production process".

The inferior position of the Mapuce population in the regional and national interethnic system[22] strengthens and maintains this situation of economic asymmetry that approves of and justifies discrimination and social inequality in different forms. That is how the situation of 'pre-exploitation' appears.[23] In this case, it is about "politically stigmatised identities".[24]

4. Socio-economic effects of tourist projects on the Mapuce population from Neuken

Specific purpose of our research have been: levelling of socially and economically targeted regions and localities; characterisation and evaluation of economic and social consequences caused by different projects; analysis of organised responses of endangered settlements; analysis of working strategies developed by the Mapuce population close to the projects and proposals for lines of actions to the authorities in charge.

We were also curious about collecting information on the following indicators:

- type and conditions for operational connections;
- type of productive demands, by which we mean demand for some raw material necessary for tourist offers;
- socio-cultural effect caused by the inflow of tourists; conflicts caused by the pressures on the Mapuce territory ('wall-map' in the mother tongue of the Mapuce), no matter whether it is about factual or legal situation;
- types of tourist projects created by Mapuce communities, as well as their relation to the ethno-political proposals of the Mapuce;
- exchange of production activities for other activities required by tourist activities;
- classification of the influence of this population on different indigenous groups of Mapuce communities

(E. Archetti, K. Stölen, "Explotación familiar y acumulación de capital en el campo argentino", Siglo XXI, México, 1975, p. 55)

22 We believe following D. Hulian that this system is a result of a process of classification where possibilities to define its factors are based on differences. This differentiation "(…) appears due to structurally different positions, which is a sign of conflict or at least sensitive situations." (D. Juliano, "Estrategias de interacción en contextos multiétnicos", II Congreso Argentino de Antropología Social, Buenos Aires, Agosto 1989, p. 6)

23 R. Cardoso de Oliviera, "Etnicidad y Estructura Social", Ed. de la Casa Chata, CIESAS, México, 1992

24 H. Trinchero, "Los dominios del demonio Civilización y barbarie en la frontera Chaco central", *EUDEBA*, Facultad de Filosofía y Letras, Buenos Aires, 2000

As far as the research units are concerned, we have focused our work on the following regions: the Mapuce reservations of *Curruhuinca*, *Painefilú*, *Vera*, and *Puel*, all in the province of Neuken.

In their planning project called 'Neuken 2020' (Neuken Province, 1997), the provincial executive authorities led by governor Felipe Sapag, succeeded by the current governor Horge Sobisch made a series of entries, objectives and purposes of investment in the tourist sector, with an aim of creating (in the tourist sense of the word) an 'International Neuken Towards the Third Millennium'.[25]

After emphasizing unique natural beauties of the province, the document describes provincial identity as unparallel and compact, a place where "landscapes have shaped the history and customs". Such naturalization of the province in the sense of the scenery and identities defined by the environment would enable the growth of modalities such as eco-tourism, with a remark that it is a tourist variant "with the biggest growth on a global scale", thanks to an interest that "tourists from the industrialised word take seeking for experience that includes a strong connection with nature in time of rest"; besides, "the quality of the environment in tourist regions" which can be used through "suitable strategies of sustainable development" has been stressed. This proposal tends to establish the international Neuken (together with Chile) in order to put Patagonia on the market as a "region of large attraction due to its exotic nature and quality of the environment".

This characterisation is in strong collision to the decline and negative transformation of the environment on the provincial territory in the rest of the region, due to the large infrastructure projects (big hydroelectric weirs and carbon dioxide exploitation). Disastrous effects of the implementation of these big projects do not reflect only in pollution and harm done to the environment, but in other social effects as well, such as the process of selling agricultural estates. Agricultural estates are sold as a consequence of the privatisation of the companies Yacimientos Pet…) and hydroelectric power station built by HYDRONOR S.A., i.e. North Patagonian hydroenergetics (Hidroenergética Norpatagónica S.A.) which ceased to exist in 1999.

The Indian reservations Pajnefilu has been chosen , as it makes part of the pilot programme called "National Programme for Village Tourism", launched on July 18, 2000 in the capital of Neuken, whose total investment figure would vary between 40,000 and 50,000 American dollars. It would develop "cultural and entertainment activities intended for the inhabitants of the cities".[26]

As far as the reservation of Kuruwinka, it is raised on the lake Lakar, around the urban locality San Martin de los Andes, which has been a tourist region for a long period of time. The population of the reservations of Kuruwinka estab-

[25] H. Sobish was reelected in October 2003 for the period of four years. At the moment, governor Sobis is creating a wide political space that might enable him to show himself as a candidate for president in the national election in 2007

[26] *Rio Negro*, July 19th 2000

lished economic relations with this zone by engaging in various tourist activities: taking visitors to see various cultural places, issuing permissions for camping in specific areas, selling handicrafts made of wood and textile.

On September 28, 2002, at 8 o'clock in the morning, an announcer of one of the radio stations from San Martin de los Andes, *FM Montagna*, which broadcast on different frequencies, said hello to her listeners, as she usually did it with the following sentence: "Good day to you, hillbillies". A few hours later, 'the bucolic mountain village'[27] was shaken: The Mapuce stopped the road leading to the hill of Chapelco, blocking the path to ski-slopes for more than 5,000 tourists that do winter sports at the time of the international competition in snowboard. In the ecological tourist village, garbage from toilets of the ski-centre objects was floating around the water system that supplies the Mapuce population of the community Kuruwinka with water.

This fact was far from being an isolated incident. It is just one of the indicators of several negative influences that represent the consequence of the exploitation of natural resources for the sake of tourism in general and spreading the practice of winter sports in particular. This conflict is within the context of the territorial dispute between the Mapuce population groups (Vera, Kuruwinka, Atreuko) that surround San Martin de los Andes and provincial authorities, the city council, the National Parks Administration and private companies that develop entrepreneurial activities related to tourism.

The provincial authorities of the city of San Martin de los Andes and large businesses had the false policy on designing tourist offers not only when it was about the proposed aim of making income, but also some chosen symbolic components. The last remark requires some explanation. The promotion of one of the biggest tourist agencies "An ecological mountain village with the international ski centre", are the words of an advertising campaign. Characteristics of the place indicate the tourist village far from the crowds of other competitive urban regions (such as the neighbouring San Carlos de Bariloce in the near province of Rio Negro, around 100,000 inhabitants), which does not lose the charm of distant times. It is about idealised past, with an emphasis on the first inhabitants ("whites"), who could overcome the obstacles that appeared when they were conquering an environment so far from the "civilised centres". The identity of today's population is related to the strength and courage of the pioneers. The lines of tourist advertising campaigns say this past has been exchanged for the presence of progress and modernism.

"Today the population of San Martin de los Andes is 25,000, and its inhabitants have discovered the purpose of its progress. Behind its countryside calm-

[27] Bucolic is an adjective which relates to the idealized nature where shepherds live; it it was used for the first time in the Ancient Greek literature, and then it was passed on to the literature of other countries.

ness, it hides permanent action, always directed towards a higher level of attention for clients (…)”.[28]

“Village life” is a product of the marketing strategy. Tourist attractions are connected both to the image of unchanged nature and the presence of the Mapuce population nearby, for, as Comas D’Argemir point out, “the mere human activity entails a constant development of this natural and social space, which has adjusted to the demand and taste of every moment”.[29]

The idea of untouched and harmonious nature is fake as its significant part is a product of social development. Scenery[29] is “a product of the relationship among classes, sexes, and races: it is not something neutral or something natural”.[30]

Tourist offer of San Martin de los Andes emphasises a romantic image of the village distant from ethnic and social conflicts. Stories about its formation are a series of events, retold chronologies that lead to the presence, following the line of progress. Ethnic conflicts are hidden behind the story that includes the Mapuce as part of the village scenery.

It is contradictory that the village is represented as a mix of more cultural currents, and they claim that its people enjoy living together in tolerance. Events such as those from the end of August 2002, which will be described in the following chapter, question the limits of this text.

Shaping village identity is in accordance with these images; Preserving ‘traditional activities’ such as contests of lumberjacks (adopted from the European tradition), celebrations of white Christmases (obviously connected to the celebrations of the north hemisphere) do not make only mechanisms to attract tourists in weeks when there are few activities, but they also pass on to a community seeking its identity in an ‘imagined’ European tradition.

The architecture of the locality is in agreement with this claim. It is trying to imitate “traditional styles” where stone and lumber are proportionately used.

“People converted a strict code of building into a well-kept angelic settlement beautiful to see: houses with roofs lying on “two waters” with lots of trees around. Stores and new hotels are in harmony with the old houses.”[31]

Craftsmanship in the village tends to be different from mass industrial activities. Crafts are particularly highly regarded, so new methods of cottage industry are found. Food, clothes, decoration are offered on fairs of crafts and shops windows as the souvenirs of the natives. It should be emphasized that craft activities do not only consist of production methods, but also forms of distribution and consumption of these products.[32] In that sense, not only the producers

[28] http://www.smaldea.com.ar

[29] D. Comas d’Argemir, “Antropología Económica”, *Ariel*, Barcelona, 1999, p. 122.

[30] Ibid.

[31] *Clarín*, Tourist section, January 20th, 2002.

[32] N. Garcia Canclini, op. cit.; J. Baudrillard, “Crítica de la economía política del signo”, *Siglo XXI,* México, 1983.

are involved in marketing and sales of handicrafts, but also local authorities who offer location on central squares for theses purposes, as well as the provincial authorities through the state agency "Handicrafts of Neuken".

"Natural products" are the trademark of local production. the paradox is that foodstuff based on the hunt of endangered species such as deer, boars, huemul[33] (huemul – the only indigenous sort of the three) which are prepared and packed so that they can be consumed not only in the village, but also transported and tasted in other destinations.

Therefore nature has been conquered and modified for the sake of production and distribution and involved in market logic. However, it is hidden behind the form which stresses its preservation. In this sense, the presence of the National Parks Administration on this locality is wholly functional.

"Tradition" is created and adopted by a group which reduces the Mapuce ethnicity to a mere component of a harmonious stenography. Ritualisation of tradition searches its historic depth in the old Europe. Evaluation of the past is chronologically precisely defined in San Martin de los Andes, because "heroic efforts at creation of a civilisation"[34] start with the arrival of "pioneers" and we are interested in analysing the period until that moment . In order to continue the research and add some "historical depth" to it, it should be transferred to European mountain villages. However, as Hobsbawm claims, "despite all inventions, newly made traditions fill only the small space created by the secular decadence of the old traditions and ancient customs…"[35]

Hobsbawm and Ranger use the concept of "inventing tradition" or "invented traditions"[36] to define fake tradition which appears with many nationalities due to contributions of different people who deal with tradition, especially gatherers, scientist, or local erudite, In order to create a cultural, political, or economic order.[37]

Village images are to some extent included tourist offers. An Indian with no history (deprived of his own attributes and uninvolved in the class conflict) is presented to tourists, who long for unpolluted nature and exotica, which are not in collision with modern forms presented in the offer.

All this does not exclude the opportunity for some Indian symbols to be adopted, their meaning to be changed, to be converted into the symbols of the

33 Uemul-sor of deer that live in the Andes.

34 Pioneers from Europe and the Middle East (Syrian and Lebanes) settled down at the end of the 19th and at the beginning of the 20th century, after the military defeat of the Mapuce in a victory that was given the euphemism " conquering desert".

35 R. Oliven, "Nación y modernidad. La reinvención de la identidad gaucha en el Brasil", *EUDEBA*, Buenos Aires, 1999, p. 25.

36 Similar to the concept of "ivented communities" made by Benedict Anderson: *Comunidades imaginadas. Reflexiones sobre el origen y la difusión del nacionalism*, Fondo de Cultura Económica, Buenos Aires, 1993.

37 E. Hobsbawm, T. Ranger, *The Invention of Tradition*, Cambridge University Press, 1983.

village identity. The fully contradictory process is not the sole case, but repeats on the local level what has already been carried out on the national level in many Latin American states and especially in the province of Neuken, where ruling classes have different ideas of how to observe the Mapuce population.

Creation of these layers of the local society is shaped by the concept of "white ethnicity", made by Cardoon de Oliviera.'White ethnicity' is made up of groups of emigrants in immigrant communities, which, though not the majority, "appear to be dominant to the extent that some segments of these groups are integrated in high layers of the local society, creating what could be called *interest groups*, ..., which is why such layers occupy the position of the ruling classes".[38]

Ideological concepts that these groups have created are expressed through the recognition of some aspects of the Indian past, although in a crystallised and naturalising way, with a simultaneous contemptuous attitude towards the contemporary Indians, especially those who show their critical attitude to their national country in terms of their rights as a constituent people. The only accepted picture of the modern Mapuce is that one which views them as through deformed lenses of 'cultural racism' which present them as "lagging behind", degraded and both racially and culturally decadent.

Some of the major terms that encourage such ideology are pioneers and progress, which are attributed to the waves of relatively recent immigration which initiated regional modernisation after the military defeat of the Indian tribes. This concept of pioneerism as an ideological form is related to the vision of historical primordialsm, which takes as the starting point of the local history resettling and exchange of the indigenous population. This concept is also considered the starting point for a homogenising project that would unite the whole society under the flag of "progress".

Creation of an authentic image of the population characteristic for San Martin de los Andes also includes the Indian but in a fragmentary way, without a historical understanding of the living conditions of the native people. Words and pictures describing and promoting the "village" refer to the "given" past in which brave pioneer entrepreneurs and the rustic Mapuce made one special interethnic combination where just "mutual benefit" existed. That is why it is the foundation for the fiction of the bucolic mountain village, producing tradition which is related, as we have already said, with the forms and customs of European mountain villages, as well as the original Indian history of the region. Bringing back importance to the material and symbolic production of the Mapuce is a constituent element of both the formation of their identity and a marketing mix of San Martin de los Andes.

Tourist offer of this locality makes profit from a symbolic project which serves to invent new forms of tourist offer and attach new importance to its attraction. Such tourist offer is attempted at giving modern and suitable borrow-

[38] R. Cardoso de Oliviera, „Etnicidad y Estructura Social", *CIESAS*, Ed. de la Casa Chata, México, 1992, p. 132.

ings to the *backward* and *rustic* (it is a paradox that it is at the same time attempt at leaving out the connection between them). The Mapuce nearby settlements doubtless strengthen the formation of a neighbouring primitive picture that could be sold. Management of this contrast and difference has been exposed in a unique way. The mentioned contrast does not relate solely on the coexistence between modern and backward elements in a single tourist offer, but is projected in the experience of tourists within the context of their urban experience.

The Mapuce population did not participate in designing such presentation aimed at alluring tourists, but the presentation emphasised it as an extra element in the village offer. "Exotica" and "primitivism" attributed to groups make another attraction, with ski-slopes and beautiful Andes landscapes around San Martin de los Andes. There is no room for social and ethnic disputes in this construction.

"San Martin is filled with tranquillity and delight. Everything looks ready to make visitors feel good and isolated from everyday problems…"[39]

However, the conflict arose in San Martin de los Andes. Blocking the way described above did not only expose the tourist season to risk, but it also showed the organisational skills of the Mapuce communities and their use of the experience from battles led by different classes in various places of Argentina.

The mentioned pollution of water streams that supply some parts of the community gets, if you wish, a conjectural dimension. However, the importance attached to that problem after a discussion on the environment, potential litigation, and wider economic aspects, allows the attention to be distracted to its historic and structural dimension with much bigger depth. Therefore, the issue of water pollution becomes much more difficult to solve and it looks threatening for the consequences of the competitive struggle for the adoption and increase in exploitation of natural resources, as well as on the consequences of hastily determination of its value.

In that sense, the dispute over the ownership of the plot 69 A, on the area of 775 acres was of common importance, as there were installations of the main object of the ski-centre on the hill Capelco on part of it. There are indicators that ski-slopes, pastry shops, shelters, and ski-lifts are on the property of the Mapuce community. In order to confirm such assumption by adequate measures, the destiny of 775 disputable acres might depend on the result of new negotiations between the concessive company, municipality, provincial authorities, and the Mapuce community of Vera and Kuruwinka

This leads us to think about characteristics and dynamics of the mentioned conflict. No doubt it is important to grant the title of land owner to members of the Mapuce community, which is what might allow them to find themselves in less unenviable position when facing pressures by the market of the land they occupy. However no doubt this fact does not explain by itself characteristics of the conflict. The process of strengthening ethnic identity of the Mapuce popula-

[39] *Clarín*, Tourist section, January 20th, 2001.

tion, the repeated practice of struggling to keep the historical right to land, and the improvement of the quality of social organisation of this nation in recent years, are the central points for understanding this conflict.

On the other hand, our group chose the Mapuce reservation Puel, with the area of about 15,900 ha of and with about 300 inhabitants, situated in the county of Angostura-Mokeue, in the district of Alumine, as the unit of research, as the implementation of development project of ski winter tourism started some time ago, on the hills of Batea Mauida, initiated by local people. Opportunities provided in the snow park of Batea Mauida consist of providing services for skiing and similar services. The mentioned project predicts to employ the reservation people, especially the young. During the winter holiday in 2000, this snow park accommodated about 300 tourists every day, which was a novelty, as this region was known to have tourist only in summer seasons. Batea Mauida has poor infrastructure: one pastry shop, equipment rental objects, one snow machine, and one ski-lift.

On the other hand, the community from the reservation of Villa Pehuenia, which is on the banks of the lake Mokeue and Alumine asked the provincial authorities to do the necessary job to improve living conditions in this zone (health care, roads). A training project for young people was implemented and they work today in the tourist complex. As it was published in the paper *Clarin* from Buenos Aires: "former bricklayers or the unemployed now work as cooks, waiters or skiing ski-instructors (…) left their jobs of animal breeders, stopped working as unqualified workforce and are wholly involved in the tourist business."[40] One should be very cautious about this piece of news as there is no guarantee that economic diversification will really be made with the growth of tourist activity. Namely, if abandonment of cattle-breeding and agricultural and complementary activities happens, there is a danger of a real economic collapse in the reservation if there is no continuity of tourist activities and if it does not get the long-term financial support for this consolidation.

This case is an example of an experience different from that described in case of the Mapuce population from the area around San Martin de los Andes. Young inhabitants managed to start implementing an economic project with unexpected results through self-management What is certain is that the independent way that this project is practically being realised shows the willingness of the Mapuce community to fully implement the economic changes that were previously rare in the region due to many reasons.

40 *Clarin*, August 10th 2000; August 20th 2000.

5. Conclusion

In order to understand the phenomenon of tourism in its multi –dimensional form, we have to consider structural aspects that lie under every social and economic process. That is why it is necessary to consider all the modes adopted by the tourist activity in recent Argentina. In this sense, figures speak volumes. According to sources, despite the investment of 2,600 million dollars in the tourist industry in recent years, 40,000 small-sized and mid-sized businesses are facing big difficulties.[41] Consequences of obstacles for these businesses are obvious: there was a decrease in employment, when almost 8,000 workers were made redundant, with too high taxation burden and a total unavailability to loans.

As a result, there was a process of economic concentration on the other side. In fact, in recent years, various international chains in the field of tourism joined their investments with national investors and opened branches of many international companies.[42]

However, local entrepreneurs gave their warning about the new situation:

"Opening these branches should not be mistaken for prosperity; they hide the crisis of small-sized and mid-sized businesses which make the foundation for sustainability of the Argentine tourism. The crisis which is striking tourism is not conjectural, but structural and it has had negative influence on the income in this sector for several years." (Oskar Geci, chairman of the Hotel and Catering Enterpreneurial Association of the Republic of Argentina – FEHGRA).[43]

A deep economic crisis that Argentina is going through has obviously stricken the tourist industry as well, especially small-sized and mid-sized businesses. At the same time, a strong contradiction in domestic tourism caused by this crisis is reflected in the fall of activities by 70% in the period form 1995-2000.[44]

After the economic and political crisis at the end of 2001 and with a recovery starting in 2003, according to some estimates, the tourist industry has had a significant increase in the whole country. However, one study from the Institute for Fiscal and Economic Studies (*Instituto de Estudios Fiscales y Económicos* – IEFE) – "Argentina: Country for Tourism?" claims that "the myth, saying that devaluation led to the growth of tourism, is being destroyed. Quoted in American dollars, tourist activities have been almost halved, whereas in pesos, – the previously reached level has been kept, despite the inflation. In percentages of exports, the participation of tourism is in decline. Tourism had a constant rise at

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41 Ibidem

42 "Sheraton", "Holiday Inn", "Ibis" (Accor), "Microtel", "Howard Johnson", "Hilton", "Sofitel", "Hyatt" i "Emperador", *Clarín Económico*, 20th August 2000, p. 2.

43 During 1999, according to an inquiry made by FEHGRA, 94% firms, members of that organization suffered the loss in their economic activity larger than 21% while 37% of those firms had to cut the number of their employees. Ibid.

44 Op. cit., p. 3.

the end of the 90s, when it amounted to three billion dollars. Paradoxically, with the devaluation of the pesos, the turnover in the tourist industry fell, as well as the participation of tourism in the country's exports."[45]

However, the small Mapuce producers generally do not see the positive effects of tourism, unlike those circles who are usually involved in this industry. In this situation, the question should be raised about what kind of future the Mapuce groups in Neuken will have from these activities and what consequences the structural conditioning will have on the local economy in the rising process of impoverishment.

It is obvious that the answer will be given by the future series of events we will deal with in future stages of the research.

Finally, it should be added as a warning that the implementation of tourist projects on the Mapuce territory is not isolated from the conflict situations that arose during the process of realisation of other types of big regional and local projects. Therefore, the realisation of tourist projects on the Mapuce territory is followed by discussions and protest which the Indian communities use to confront various ruling classes of the national society.

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[45] C. Scaletta, "Pese al dólar alto, el turismo cayó un cuarenta por ciento desde el 98", *Página* 12, August 25th 2003

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BIRTH OF THE IDEOLOGY OF CONSUMER SOCIETY IN THE UNITED STATES OF AMERICA DURING THE 1920s*

Abstract: *A decade from 1920 to 1930 is considered the golden era in the history of the United States of America. The American economy after the Second World War entered a period of exceptional prosperity. In the following ten years, the production was continuously rising and the living standard improving, especially the middle class standard, which caused the emergence of the new ideology of consumer society. The growth of automobile and electronic industry directly made the life of ordinary American citizens wealthier. Many economists and historians attach great importance to these industries due to their combined effect on humankind and label their growth as the Second Industrial Revolution. A revelation of strength and true nature of new ideology of consumer society gives an answer to the key issue of this article, which is the way the American society has adopted this ideology and promoted it on the level of a new 'philosophy of life'.*

Key words: *liberal capitalism, corporativism, hyper-production, consumer society.*

1. Introduction

The United States have had the leading role in the world economy since 1913, when they produced over one third of the world industrial product – just slightly less than Germany, Britain and France together. Besides having been the leading manufacturer of industrial products and food, they also owned unmistakeably the largest gold reserves. The domestic market was so large that big firms and distributors could achieve a wide range of massive production. Owing to all this, America has achieved a dominant position in the total world production, which was never before achieved in any country in the period of prosperity. The figures are amazing and at the same time, they show a strong belief of the

* *Translated from Serbian by Maša Stojičić.*

American nation in their own future: 34.4 % of total world production compared with British output of 10.4%, German 10.3%, French 5% and Japanese 4%.[1]

The First World War strengthened the American position as the leading world industrial manufacturer and at the same time turned it into the biggest world creditor. The British lost about the fourth of their investments during the war because they had to invest in war equipment mainly in the States; the French lost half of their foreign investments mainly due to the Revolution and unrests in Europe. In the meantime, Americans, who started the war as a debtor country, ended it as the main international creditor.[2]

The fact that gross production per capita was almost twice as high as the same value in Britain or Germany and ten times higher than in the Soviet Union or Italy additionally underlines the importance of dominant production of the United States. That is why it is important that 'the political impact of the United States in the world was not in proportion to their unusual industrial power',[3] though, one must admit, it was not so important during the 1920s. In the first place, Americans avoided the leading position in the world politics, reluctant to face all diplomatic and military consequences that would be caused by such position; bearing in mind that American economic interests were not affected by actions of other countries, there was no special reason for the involvement in foreign events – especially those that were emerging in Central and East Europe. International events in the decade after 1919 did not suggest any significant threat to American interests. Europe was still recovering from the consequences of the difficult war, and Russia was (self) isolated.[4]

There is another interpretation saying that fast economic growth of the 1920s was some kind of poor 'drunken spending', destined to end up in a disaster and it also says that there was an abyss poverty beneath the smooth surface of prosperity. However, the prosperity was very widespread (though not universal) and it was the consequence of a spectacular economic development. Even almost a decade-old view held by Republican presidents Warren G. Harding, Calvin Coolidge and Herbert Hoover, which says that 'the first and foremost economic function of the government is to encourage large capital to made a huge profit and not to supervise its activities'[5] was fully justified at the time. Large corporations really earned enormous profits that they invested in industrial expansion and suddenly

[1] J. K. Galbraith, *American Capitalism, The Concept of Countervailing Power*, Hought Mifflin Company, Boston, 1956, pp. 56-109; R. Blum, *Koncentracija kapitala u američkoj privredi*, Institut za međunarodnu politiku i privredu, Beograd, 1959, pp. 33-46.

[2] h. P. Kindleberger, *A Financial Historiy of Western Europe*, Oxford University Press, New York, 1993, pp. 355-361.

[3] W. W. Rostow, *The World Economy: History and Prospect*, Austin, Tex., 1978, p. 210.

[4] Ibidem; A. Mitrović, *Vreme netrpeljivih*, *Politička istorija velikih država Evrope 1919-1939*, Srpska književna zadruga, Beograd, 1974, pp. 163-194.

[5] H. B. Parks, *Istorija Sjedinjenih Američkih Država*, Rad, Beograd, 1985, p. 594.

increased national wealth and production capacity. Workers also benefited from so high profit through new consumer goods, permanent employment schemes and better living standards. The most conspicuous characteristic of the economic development during the 1920s was an increase in production as the consequence of applying new scientific discoveries, new energy resources and new methods for increase in productivity. Therefore, in 1929, 69 workers could produce as much as 100 workers could nine years earlier. Total production in all fields of economy rose in this period by 46%. One of the important indicators was the fact that the national income in this decade saw a rise from 59.4 to 87.2 billion dollars, whereas the real rise in income per head climbed from 522 to 716 dollars. If change of the value of money is taken into account, this was an increase of 31% in relation to 1922, whereas the population increased by only 11%.[6]

With a continuous improvement in production methods, relatively fewer workers lacked the basic needs, such as food and clothes. At the end of the 19th century, 57% of total production was spent on food and clothes. In the meantime, the number of new buildings, the production and sales of machines and permanently disposable goods such as automobiles, fridges, telephones and electric appliances went up. That really meant that those items that were previously considered to belong to the upper class now became available to an average American family. A middle class American of that time had living standard that was unattainable even to the rich in any earlier historic era. .[7]

2. Expansion of automobile industry

The essence of the fast increase in consumption in the second decade of the 20th century was personal transportation, which could not be considered luxury at all in such a huge country. While the industrial expansion at the end of the 19th century was focused on building of railways and steel production, fast economic development in the first half of the 20th century was based on automobile production. Though there were still 44 auto companies in the United States until 1929, 80% of all automobiles were manufactured by Ford Motors, Chrysler and General Motors.[8]

Henry Ford was not only the leading figure in the automobile industry for years, but also the leader of the American industry in total. He owned most shares of Ford Motors and persistently denied being dependent on bankers and share-

6 E. A. J. Johnson, H. E. Krooss, *Podrijetlo i razvoj američke ekonomije, Uvod u političku ekonomiju*, Preduzeće za izdavanje prodaju i distribuciju knjiga, Zagreb, 1958, pp. 98-109.

7 Ibid.; J. K. Galbraith, pp. 212-217.

8 H. E. Seymour, “Kratak pregled privredne istorije od 1800 do 1947”, *Spasavanje američkog kapitalizma – jedan liberalni ekonomski program*, Kultura, Zagreb, 1954, pp. 64-73; J. K. Eastham, *An Introduction to Economic Analysis*, London, 1958, pp. 367-371.

holders, aware of the fact that it was the only way he could realise his ideas. He was fully conscious of the major elements of the new era of wealth: specialisation and division of labour aimed at decreasing production costs; large income aimed at improving purchasing power; and mass production at low costs, for a market that would be available to everybody. Automobiles stopped being toys for the rich, mostly owing to his successful management, and it became an important part of the American living standards. “Ford was an unusual nature, he supervised his workers with fatherly concern which was often strict, whereas he expressed often unusually naive opinion on the world business,”[9] However, he was one of the main figures in American economic development and his assembly lines in the factories around Detroit attracted pilgrims from the whole world. This way he gave a different mood to the 20th century; with his business philosophy of mass production and mass sales he made, he provided in fact the basis for modern industry.[10]

General Motors had a huge and real price increase in shares, higher than any other automobile company in the 1920s did. Anyone who invested 25,000 dollars in the company until 1921 became a millionaire by 1929, when the profit of the company was 200 million dollars a year. Alfred P. Sloane set up General Motors these years, partly penetrating Ford’s share of the market. Therefore, in 1929, Ford had 55.67% market share in the automobile industry and he produced 845,000 automobiles a year. One in two sold cars was a Ford. General motors was applying a strategy of mechanics, selling good quality cars at the lowest possible price and offering a small range of models. Sloane, unlike Ford, was a ’strategist of consumption’. He introduced innovations such as hydraulic bearings and covered automobiles, which particularly stimulated sales during the 1920s. Namely, in 1919 only 10% automobiles on roads were covered, whereas in 1927 this figure rose to 83%.[11]

Sloane manufactured a wide range of automobiles for the widest possible circle of consumers. Chevrolet, Pontiac, Oldsmobile, Buick and Cadillac were the main types of cars – covering all main consumer profiles, but each was manufactured in numerous versions. “He was the first one to introduce the superiority of style, satisfying a great deal of the American cult of size and relating it to the cult of variety, which pushed Ford down to the second place, whereas General Motors was transformed into the largest production company in the world.”[12]

That is how the United States produced over 4.5 million motor vehicles in comparison with 211,000 in France, 182,000 in Britain and 117,000 in Germany by 1929. Simultaneously, the total number of registered automobiles was over 26 million, which made five-sixths of the world production, and one automobile

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9 H. B. Parks, op. cit. p. 618.

10 Ibid.; M. Klein, *Rainbow’s End, The Crash of 1929*, Oxford University Press, Oxford, 2001, pp. 113-115.

11 Ibid.

12 Ibid.

per five inhabitants of the United States.[13] Four leading manufacturers in Europe accounted only for 20% of the total number of consumers in 1924, whereas the auto production accounted for only 13% of the American industry. These figures indicate that American working class won the freedom of movement that only the upper middle class had had before and it was not available to European workers either at that time or in the following 30 years and later.[14]

Those who bought automobiles at the beginning were individuals who possessed significant savings. In the first decade of the 20th century, a few banks, financial companies and independent car traders experimented in many ways of purchase and sales of new cars. Significant change happened when General Motors and DuPont, owing to the profits made in the First World War, founded The General Motors Acceptance Corporation in 1919, financing the production in a very new manner. In fact, it meant selling cars on credit. In the next two years, half of the new owners bought on credit; by 1926, this figure rose to three- fourths. The price of automobiles sold in this way was unrealistically high but justified by the fact that only one third of the sum was demanded to be paid at once, while the rest of the sum was paid by instalments.[15]

Buying on credit not only increased the opportunity for people to buy automobiles, but it also affected their consumer behaviour. It also helped an increase of the market of cheap, second hand automobiles. In this market, even people from the lowest social groups could get these cars at much lower price. When all this is taken into account, it does not surprise that even back in the 1920, one in three American households owned an automobile, which is a dramatic shift in comparison with one in thirteen households who had it at the beginning of World War One. Apart from the impoverished South, car and track owners were geographically equally distributed. According to a survey made in 1927, 54% families in towns with the population over 100,000 owned cars, while the percentage was even higher, up to 60%, in small towns with the population under 1,000.[16]

As the total number of produced cars was 24.5 million by 1928, it actually meant that directly or indirectly, four million workers earned their salaries in this most developed industry of the American economy. More precisely, one in eight American workers was involved in the production, car sales or fuel sales. This industry has changed the nature of the American economy. It contributed to a fantastic leap in the import of rubber, tin, petroleum and other raw materials necessary to ’feed’ this production boom; but also export, especially the export

13 P. Kenedi, *Uspon i pad velikih sila, Ekonomske promene i ratovanje od 1500. do 2000. godine*, SID, “Službeni list SCG”, Beograd, 2003, pp. 316-318.

14 E. A. J. Johnson, H. E. Krooss, op. cit., pp. 98-109.

15 D. Lynch, *The Concentration of Economic Power*, Columbia University Press, New York, 1946, pp. 43-97; J. H. Williams, *Economics Stability in a Changing World, Essays in economic theory and policy*, Oxford University Press, New York, 1953, pp. 205-231.

16 M. Klein, op. cit., pp. 113-115.

of automobiles and agricultural machinery was also increasing during the 1920s and the whole process was in a way supported by the sudden increase in the American overseas investments.[17]

Automobiles significantly changed people's lifestyles, connecting their work, shopping time and spare hours. Automobiles were undoubtedly the most important of all new technologies that became popular during the 1920s. Radio and electric appliances such as vacuum cleaners and washing machines were second on the list. For that reason, one of the most frequent activities of the automobile industry was sales stimulation through specially devised advertising. At the time, advertising appeared in a new style, where huge, illustrated adverts with a subtle psychological approach exchanged prosaic announcements on product availability, which were typical of the previous period. Advertising experts paid particular attention to psychological studies and invested huge efforts to adjust subtle messages about the ownership of automobiles to the social status, power and profile of the future owner. Newspaper and magazine readers were 'bombarded' by huge advertisements with very shrewd texts and pictures of automobiles with smiling families or young women standing beside.[18]

This is how Americans became the nation on wheels. Every big city soon faced obviously unsolvable problems. Namely, people's lifestyle became more hectic and started taking its toll. According to the official statistics, almost half a million people were killed in car accidents by the end of the 1920s, which is worrying if we take into account that the figure is bigger than the total number of killed Americans in all wars until then.[19] National oil reserves were being spent unbelievably fast. In the second half of the 20th century, Rockefeller's Standard Oil Company and other big oil companies, trying to meet the demand for petroleum, started to open petrol stations all over America. Findings and exploitation of huge oil fields in Louisiana, Oklahoma and Texas in the early 1920s decreased oil price in spite of the rapid demand growth. The oil boom in the Southwest created a dominant new industry in the region, enabling creation of thousands of jobs in oil wells, refineries and supply systems. That is how the development of oil industry contributed to the process of enrichment a previously poor region.[20]

An increase in the number of car drivers created demands for better roads. The federal government and governments of the states introduced new taxes, for the first time with no resistance, in order to finance the project of building a transport network. In the beginning, one of the most important taxes imposed by the states and then the federal government was sales tax on petrol, with an aim of supporting construction and maintenance of roads. However, even this tax

17 D. E. Kyvig, *Daily Life in the Unitetd States 1920 – 1940, How Americans Lived Through the "Roaring Twenties" and the Great Depression*, I. R. Dee, Chicago, 2004, pp. 27-52.

18 M. Klein, op. cit., pp. 109-111; D. E. Kyvig, op. cit., pp. 27-52.

19 H. B. Parks, op. cit., p. 618.

20 D. E. Kyvig, op. cit., pp. 27-52; D. Lynch, op. cit., pp. 131-135.

did not affect the petrol price that remained very low. Back in 1919, the states of Colorado, New Mexico and Oregon introduced tax on petrol aimed at construction and maintenance of roads; by 1925, 44 states introduced the same tax and by 1929, all the other states. That is what changed the structure of financial sources that covered the expenses of road construction. That is how these expenses were covered mostly with the tax on public property and direct government investments as well as means obtained from automobile registration. However, until the end of this decade petrol taxes were the largest source of income and the sole source of income in even 20 states.[21]

The expansion of automobile industry helped the advancement of American education system through the production of school buses. That is how 27,000 buses were in service of citizens by 1926 and they enabled the exchange of rural one-grade schools with bigger, new schools with a higher quality of education, especially at high school level. As a result, the number of high school students in that decade tripled, so almost half of the high school children were enrolled in these schools.[22] It was an unbelievably big move forward in the history of the development of the American society in comparison to the previous time.

3. Increase in production and use of electric energy

The most important economic advancement of the 1920s, except from the automobile industry was the sudden increase in the use of electric energy. It allowed many forms of production and transport to become cheaper and more efficient and at therefore, to bring new comfort and significantly help housework. Expressed in horsepower, the production of electricity rose from 7.5 billion in 1912 to 20.3 billion in 1922 and then 43.2 billion in 1930, which was a 600% increase in just 18 years. The consumption of radios also went up from only 10 million in 1920 to over 411 million dollars in 1929. Total sales of electric appliances tripled in that year, to 2.4 billion dollars. The United States had in total 35% of households that used electricity in the mid 1920s, and only in California, this figure was 83%. The national price per kilowatt-hour was on average 2.17 dollars, even cheaper in California – 1.42 dollars.[23]

Production of electric energy for the needs of households was not a new phenomenon, however, it created jobs for many people and started to influence their everyday life exactly in this decade of the 2oth century as never before as well as the appearance of automobiles. With its appearance, ordinary people started to organise their time the way they wanted. Electric bulbs made people adjust

[21] Ibid.; P. Džonson, *Istorija američkog naroda*, Knjiga-komerc, Beograd, 2003, pp. 660-663.

[22] Ibidem

[23] G. Smiley, *Rethinking the Great Depression*, Ivan R. Dee, Chicago, 2002, pp. 4-7; D. Lynch, op. cit., pp. 103-110; D. E. Kyvig, op. cit., pp. 53-70; M. Klein, op. cit., pp. 84-108.

their lives to the clock instead, as it used to be the case, by sunset and sunrise. Research showed that by 1924, the middle and upper class, i.e. businesspeople that had the highest possibility to determine their own business schedule, started their workdays at 8.30 a.m. in most cases. Their daily schedule was obviously deliberately contrasted to the 70% of the working class workforce, who started their workdays normally around seven o'clock. Leading producers of electrical appliances – General Electric and Westinghouse Electric were particularly oriented on the production of industrial motors, trams and streetlights. These manufacturers of electrical appliances were not ready to respond simultaneously to the demand of the introduction of electric wire for households. Only this left some room to increase the potential market for small inventors, who would give an important contribution to the expansion of electric lighting in households.[24]

No matter how unbelievable it may sound, one of the unnoticeable but far-reaching results of the introduction of electric lightening in households was a possibility for people to read at home. People who found it difficult to read by smouldering oil lamps or candles and especially children, who were not considered safe by such source of light, could now read easily and safely by electric bulbs. Partly because of this, in 1925 many American libraries recorded an increase in the number of readers up to eight times in relation to 1890.[25]

Owing to new possibilities of using electric energy, there were significant changes in the construction and interior of the American houses. Victorian houses at the end of the 19th century were lit by gas and divided into many rooms. Gas mad unpleasant smell and smoke and was the most frequent cause of fire. At the start of the 20th century, a few architects with Frank Lloyd Wright as the most famous one, recognised big chances of electrification and its relative safety as well as the advantage of adaptation. They started to design houses with open interior where living room, dining room and kitchen were joint together. The only isolated rooms were bedroom and bathroom. Houses equipped with electric power had many sources of light that did not make any smoke or cause fire easily.[26]

After lighting, the first novelty in these houses with electricity was electric iron. As the number of such houses started to rise increasingly, after 1918, the market of electric appliances developed quickly. These were reasons that made General Electric buy a few promising small companies for the production of electric appliances, applying technological innovations and investing significant financial resources in the growth of the market. Improving design and mass production of sewing machines, washing machines,[27] and vacuum cleaners, prices fell and sales increased. Attaching small battery engines to food cutters, the most

[24] D. E. Kyvig, op. cit., pp. 53-70.

[25] Ibid.; W. Sloat, *1929, America Before the Crash*, Cooper Square Press, New York, 2004, pp. 115-120; D. Lynch, op. cit., pp. 103-110.

[26] M. Klein, op. cit., pp. 84-108; D. E. Kyvig, op. cit., pp. 53-70.

[27] D. E. Kyvig, op. cit., pp. 65-70.

popular kitchen products were created: electric food blenders and mixers. That is how electric appliances evolved from rich and unreliable toys to very useful tools for many middle class American people, with a significant modification of price.

There are different indicators that show the use of electricity has doubled during the 1920s. Until 1920, 47% of the urban America could use energy, unlike 1.6% of the American farms. A decade later, 85% of urban households used electricity, but the percentage of rural users stayed very low – only 10%, in other words, only 600,000 out of 6.5 million farms used electricity. It was probably the time that showed the most obvious difference between the urban and rural way of life, for the first time in the American history. Political tensions between the city and the country especially arose during the 1920s and there were no doubt those rural inhabitants, apart from different approach to alcohol use, religion or segregation, were angry because they were technologically and culturally neglected.[28]

4. Rise of oligopoly and the first signs of weakness of the American economic system

Although the American economy could manufacture goods in huge quantities and range, in the 1920s it still did not solve the problem of sales. Many analyses of the organisation of the industry, management and revenue share show that there were serious weaknesses in the market mechanism. Looking back, it is easy to see that these weaknesses led to the economic crisis in the end and made the Great Depression unusually long and intense.

In the 1929, there were already 1,349 share-holding corporations, with the annual revenue of over million dollars. They accounted for 80% of all corporate profit, leaving only 20% to other 455,000 corporations. Only 200 firms owned almost half the wealth of these corporations and almost one fourth of the total national wealth. Large corporations were responsible for transport and communal institutions, the largest part of the national industry and they were absolute leaders in retailing. Individual ownership remained strong only in the field of agriculture, some industries of consumer goods (such as textile), some types of retailing and service industry.[29]

It is also easy to conclude that until 1929 there were fewer monopolistic companies than in 1901. This was partly due to an anti trust campaign and partly due to a big economic expansion that made it more difficult for particular firms to dominate over the whole industry. However, weakening of monopoly did not

28 N. L. Carlton, “Električna energija”, in: *Spasavanje američkog kapitalizma – jedan liberalni ekonomski program*, Kultura, Zagreb, 1954, pp. 117-130; G. Smiley, op. cit., pp. 4-7.

29 L. R. Heilbroner, *The Limits of American Capitalism*, Harper&Row Publishers, New York, 1966, pp. 63-82; R. Blum, op. cit., p. 88-92; M. Klein, op. cit., p. 127

revive price competition a lot. A characteristic of most key industrial fields was oligopolies or market control exercised not by one, but by a few strong corporations. In accordance with the policy of oligopolies, corporations were usually collaborated on keeping prices at the same level, whereas they competed with each other on quality improvement and product advertising. Oligopoly was typical for many basic capital industries such as steel industry, but also for some consumer goods industries such as four leading cigarette manufacturers, which always collaborated on setting monopolistic prices.[30]

There were naturally strong reasons for oligopoly agreements on prices because it allowed long term planning and expansion. However, it is also probable that the price control enabled large corporations to earn more and this was certainly, what made it difficult for the economy in general to overcome later depression. Namely, in a very competitive system, any decrease in buying power would soon be hindered by cut reduction. As it turned out later, after the beginning of the depression, large corporations found it more useful to keep stable prices and reduce production, which increased unemployment and deepened the crisis. Frozen oligopoly prices were therefore the greatest weakness in the American economic system.[31]

New industries were managed by businessmen who, as it had earlier been the case with Andrew Carnegie, John D. Rockefeller and their contemporaries, were both the company owners and their managers. Now people like Henry Ford and DuPont Brothers were those rarely found creative constructors and business managers. Other business executives were primarily financial managers who earned profit by speculative activities; such type of business people particularly dominated in the industry of electricity production, where Samuel Insull was particularly ill-famed. However, in older industries, which were quite stable at the time, with the tendency to make a distinction between ownership and management, there was no more space for personal skills and ambition. Ownership rights belonged to a large number of shareholders, whereas paid officials, who were building up their careers up the corporate hierarchy were responsible for the management.[32]

The most obvious example of this tendency was the largest business organisation in the country – the American Telephone and Telegraph; until 1930, unbelievable 570,000 shareholders owned this organisation; therefore, it is not surprising that ownership and management were completely separate there. Many other large and mid sized corporations were moving fast in the same direction.[33]

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30 Ibid.; J. K. Galbraith, *American Capitalism...*, pp. 41-47; E. A. J. Johnson, H. E. Krooss, E. Herman, op. cit., pp. 98-138.

31 Ibid.

32 Ibid.; F. Lundberg, *The Rich and the Super-Rich, A study in the power of money today*, Lyle Stuart Inc., New York, 1968, pp. 131-250; W. Sloat, op. cit., pp. 78-79.

33 E. A. J. Johnson, H. E. Krooss, op. cit., pp. 98-138.

With the sudden increase in the number of shareholders, the United Stated of America was sometimes labelled 'the country of capitalists'. Historic reality showed that such attitude was too optimistic. Though we cannot precisely tell how many different people owned shares, it is quite sure a large share of industrial profit went to a relatively small group of people. Only 17,000 shareholders obtained more than one third of dividends, and 150,000 got more than three-fifths. Some of shareholders were insurance companies, colleges, and other subsidised institutions, but the majority were still individuals, rich upper class members.[34]

Administrative problems as well as the problems of management specialisation and department organization soon appeared in large corporations, where distinction between ownership and management became a reality. In fact, a large corporation involved separation of ownership from management, for it was physically impossible that all owners or shareholders meet and work out the company strategic plan. Even if it had been possible to overcome the problem, shareholders were not sufficiently familiar with all details of the activities, to bring successful decisions. As the economy was becoming increasingly complicated, technically more complex and wide-ranging, it was important to approach a decision making process more cleverly. One was supposed to make estimates more based on their long term, rather than short-term effect. To bring a decision, a wide familiarity with all stages of the company's business was needed, as well as the familiarity with the economic situation in total. No individual had enough knowledge, time or energy to bring thousands decisions which were required in any complex economic firm. For instance, in colonial times, the American company Hancock signed about three transactions in a work day. One hundred years later, the same but modernised company, concluded over 5.000 transactions a day. That is why the managers of large companies started using accounting and statistics more and more and they had to have knowledge not only of economics but also of law. As advertising and services were becoming increasingly important, familiarity with psychology and interpersonal relationship became an imperative. While a firm was developing, managers longed for the constant increase in new capital, trying to avoid businesses risk at the same time. They paid more attention to the impression their work leave on their rivals, customers and employees. They started to rely more on experts in all business fields: sales, production, purchase, and personal issues. They depended more and more on banks, trusts, insurance companies, lawyers, engineers, information bureaux and other institutions when it was needed to solve various business problems. Therefore, development and increased complexity of the economy required management skills. Bringing decisions became specialized. Decisions on production and sales were brought separately and staffs were located in separate departments.[35]

[34] Ibid.; H. B. Parks, op. cit., p. 619.

[35] D. E. Apter, "System, Process and Politics of Economic Development", in: *Industrialisation and Society,* Unesco, Monton, 1963, pp. 232-247; L. R. Heilbroner, op. cit., pp. 63-82; R. Blum, op. cit., pp. 88-92.

The distinction between property and management had different effects on the economic development. First, a higher level of specialisation made work more rational and their business more advanced. Experts brought decisions at every stage of the production process. Research became more scientific and the introduction of new technologies became more subject routine than inspiration... However, the new system had its big drawbacks, which could lead to a conclusion that such distinction did not have only positive influence on economic development. First of all, it created bureaucracy.

The classification of decision-making process, creation of new experts and organisation departments, meant a routine and systematic administration, which is the heart of any organisation process. Although it may be the most efficient system for the administration of everyday routine, "bureaucracy has hindered initiative and made economic management a tedious routine instead of an interesting enterprise";[36] it made the market a stable and safe place instead of a risky one. Problems of managing a large company became similar to problems of the government administration. Many managers adopted the same business mentality and schedule as typical state officials. It meant the main aim was to keep the position. Entrepreneurship was hindered because it was believed that any risk taking activity resulting from initiative might spoil the position safety.[37] A new ideal was to become an important but anonymous fragment of the huge economic mechanism. The statement of the chairman of General Motors Alfred P. Sloane: "It seems that we suffer from inertia, which is the result of our multitude" speaks about the essence of this problem.[38] The hindering effect of bureaucracy was particularly obvious on lower management levels, but even the senior management tended to avoid risk and seek stability. This was especially noticeable in those industries where bankers became owners.[39]

Distinction of the ownership from management had also the tendency to weaken the position of an entrepreneur in the American society. He started to lose his traditional dominance; he did not stand out in the society but became an "ordinary phenomenon". As his work became increasingly routine, successful business decisions were brought with no struggle. That success seemed so easy that it was considered a constituent of everyday life. Schumpeter wrote about it: "Success cannot any longer be characterised by individual accomplishment that could bring not only an individual but also his group to permanent position of social leadership. As capitalistic firm tends to present its development by its suc-

36 E. A. J. Johnson, H. E, Krooss, op. cit., p. 151.

37 Ibid.; E. From, *Bekstvo od slobode*, Nolit, Beograd, 1978, pp. 108-111.

38 E. A. J. Johnson, E. Herman, op. cit., p. 150.

39 Ibid.; L. R. Heilbroner, op. cit., pp. 63-82; R. Blum, op. cit., pp. 88-92.

cesses themselves, we can conclude that it also tends to make itself superfluous – to fall apart under the burden of its own success.[40]

The distinction also showed some divergent interests of different participants in the game of economic business and therefore created antagonism. Disputes among shareholders, financiers, workers and members among the management hierarchy started to show up more clearly. Attracted by the profit made by gambling on stock and shares, the financiers often involved in these speculations, causing damage to the economy. Shareholders were attracted by dividends, so they believed their management were spending money on ridiculous expenditure and that they paid themselves enormously high salaries. Managers, however, were more concerned for their own safety, stability and continuous work rather than paying high dividends. Companies kept more profit for themselves to enable shareholders to stabilise dividends and for management to get independence from financiers when obtaining capital for further investments in production.[41]

New elements have been introduced into the American economic system and owing to them, professional managers, who opened up the so-called managerial revolution, undertook many positions of entrepreneurs. The board of managers and financiers occasionally kept some powers in the process of determining objectives of big companies, but the management brought most business decisions. As the leading managers were above all interested in stability and continuity, as well as keeping balance among various groups that had their interest in the work of these companies (such as shareholders, consumers and employees), the changed role of entrepreneurs in fact brought stiffness to the economy and made it less vigorous and elastic .[42]

5. Income and changes in labour force

The fast increase in services, trade and white collar jobs led to a situation that less and less people were employed in production, whereas more people were employed in administration and had jobs related to the provision of 'pleasant entertainment to consumers'. Despite the increase in population between 1920 and 1929, the number of people who work in production, transport and mines was decreasing continuously, even by over 500,000, whereas the number of farmers fell by 250,000. According to the 1930 census, only 58% employed population were directly involved in production. Out of the rest, 8% were busi-

[40] J. A. Schumpeter, *Capitalism, Socialism and Democracy*, Harper and Brothers, New York, 1947, pp. 133-134.

[41] B. E. Hoselitz, W. E. Moore (eds.), *Industralisation and Society*, Unesco, Monton, 1963, pp. 150-230; W. Sloat, op. cit., pp. 82-93.

[42] Ibid.

ness people, 5.5 % worked in home service and at least 30.5% dealt with professional, administrative and service industry. [43]

For the prosperous period of the 1920s, it is important to stress salaries in administration and profits rose faster than wages. The truth is also that American workers earned more than before. Many corporations (partly with an aim of preventing the strengthening of the labour union) raised wages a great deal, brought decisions on pensions, and spent a large share of their budget on the improvement of the workers' living standard. However, an increase in wages could not keep up with the increase in production. From 1922 to 1929, real wages of industrial workers rose by 1.4% on average, whereas production per head rose 2.4% on average. During all these years, the total sum of wages paid to industrial workers rose by 33%, whereas wages in non-productive industries rose by 42%; the sum of payments for corporate net profit rose by 76% and shareholders' dividends by 108%. Therefore, although workers made more and more money, they simultaneously earned smaller and smaller share of the national income.[44]

It is evident that between 1919 and 1929 the United States of America achieved an unbelievable increase in productivity. Production per worker in the industry rose by 43%, which enabled an amazing increase in capital investments, which had an annual rate of 6.4% and enormous advancement of industrial technology. However, the increase in technology did not promptly affect the increase in real wages. The fact they rose slowly was a reflection of the monopolistic power of large corporations. Instead of a balanced advancement of real wages, buying power and productivity, with a chance for workers, owing to that productivity, to consume more that what they produced in factories, they rose slowly and workers found it difficult to keep pace with new prosperity.[45]

All this shows that there were many changes in the structure of workforce. Its position varied a lot between 1899 and 1929. During these 30 years, there was a significant change on the average increase in population compared to the previous period, firstly due to the fall in birth rate and after 1920, due to an actual break in immigration. So, the workforce by 1910 included 57.9% people aged 14 and over. That was the highest percentage of the population that had ever been registered as workforce and it was mainly a result of an increased participation of women and children. Children workforce that included those between ten and fifteen amounted to maximum two million in 1910. There was also an increase in female workforce, considering that women aged 14 or over made something more than 25% of the workforce.[46]

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[43] E. A. J. Johnson, H. E. Krooss, op. cit., pp. 156-160; H. B. Parks, op. cit., p. 622.

[44] Ibid.; J. Backman, *Wage Determinationm: An Analysis of Wage Criteria*, New York, 1959, pp. 123-130.

[45] Ibid.; J. H. Williams, op. cit., pp. 71-87.

[46] Ibid.; W. Sloat, Warren, op. cit., pp. 220-224.

Due to economic prosperity, more American young boys devoted their time to their education. The percentage of those that attended school between the age of five and twenty rose from 46 %(1870) to 52 %(1900); then the increase was extremely fast and reached 73% around 1930. As a result of the advancement of the education system, children workforce practically disappeared. Around 1929 there was less than 10% (400,000) persons aged fifteen and under among the workforce. At the same time, the percentage of older workers was decreasing. Voluntary retreat from work became increasingly usual due to faster production and increase in technological innovations. In fact, the demand for workforce was decreasing so that older workers were the first to face it. There were 39% of the population older than 65 and older but even as early as 1930, only 33% earned their salaries.[47]

The 1920s also marked a bigger advancement for the American women than in any other era before or later. In that period, there were 10.5 million women who earned money out of their homes; the highest number of them still worked as housekeepers, but there were 2 million women who worked as clerks, 1.8% million in production and even 1.2 million had professional jobs that required qualifications. Although the system of family recruitment – which existed in the fist stage of the American Revolution – had been abandoned a long time ago, the income of working families still came from their common rather than individual work. Married women were those who earned extra money for their families to cover the expenses of the higher living standards. In only three-fifths of families, in the1920s, the husband's salary was the sole source of income.[48]

At the beginning of the 20th century it was possible to save only by economisation. As the essential means of living were purchased, there was no real extra money that could buy more luxurious goods or so on. According to the research made in 1903, over 75% of income of working families was spent on food, accommodation and clothes. Living conditions for an ordinary factory worker were still miserable in those years. Only 18% of the families who participated in the research of living conditions in New York had a bathroom and 50% lived with more than one person in room; 22% were malnourished with 22 cents they had to spend a day. However, by 1929 the average annual salary of an American worker was 1,450 dollars. As the price level did not change a lot, an average worker could afford much more consumer goods. Only about 67% of the average worker's income was spent on food, clothes and accommodation, while the rest was spent on less needed or luxurious things. The average worker could make some savings in 1929 as opposed to 1900. According to the research, almost 4,000 families with the average annual income of 1,344, could save 83 dollars or 6% of total income on average.[49]

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[47] E. A. J. Johnson, H. E. Krooss, op. cit., pp. 153-178.

[48] Ibid.; M. Klein, op. cit., pp. 125-135.

[49] Ibid.; D. Kyvig, op. cit., pp. 131-162.

Conclusion can be drawn that at the end of 1920s living conditions were far more favourable for an average worker than before. Dwelling conditions of urban worker or clerk had improved a lot, not particularly because of the improvement of urban dwelling structure but because of the population transfer to suburbs, fall in average number of workers family members, as well as state support, particularly in local terms. Free social security services provided by governmental and private charity institutions improved the workers living conditions but it could not be traced in wage and working hour statistics. Free social security services that were mainly provided to low income groups in 1915, had been estimated to about 850 million dollars; until 1930, they climbed to more than 3.7 billion dollars. Major share of these expenses were made for education where growth has been recorded from 700 million dollars to 2.9 billion dollars. Health care expenses grew from 80 million dollars to 550 million dollars from 1915 to 1930. Although workers covered indirectly some of these expenses through tax payments, the largest share of them had to be paid by the tax payers in high income groups through increases in progressive income tax. On the other hand, stress as a consequence of the fear for employment and security had become one of psychological companions of workers.[50]

It has been shown that four decades of economic prosperity and change in beliefs had definitely transformed internal structure of American labour force. In 1929, an average worker had reached more and more his middle age. Children labour force was rare and the elderly workers had been gradually expelled. Married women were employed more and more frequently giving contents to new social term of gender equality. Such changes in the range and structure of working force needed obligatory far reaching social rearrangement. The problem of social insecurity had become more acute and traditional doctrine of infinite possibilities had been slowly loosing its credibility.[51]

A particularly interesting thing is that the economic prosperity was in fact one of the most important causes of the declining influence of workers' union in this decade of the 20th century, which was in a way the most successful in the history of the American industry. When we consider this, it is not surprising that membership in the American labour unions fell from 5 million to 3.4 million workers. Prosperity meant higher wages for workers and every increase in wages emphasised a tendency of the American worker to make him equal with the middle class instead of proletariat. Prosperity also meant technological development, which again led to a decline in the number of industrial workers. The increase in the qualified labour in comparison to half-qualified and unqualified workers, as well as an increased number of clerks was also significant. Labour

[50] Ibid.; H. E. Seymour, "Neki aspekti socijalne zaštite, obrazovanja i politike rada", from: *Spasavanje američkog kapitalizma – jedan liberalni ekonomski program*, Kultura, Zagreb, 1954, pp. 316-325; E. From, op. cit., pp. 120-122.

[51] Ibid.; E. A. J. Johnson, H. E. Krooss, op. cit., pp. 162-164.

unions, as they were in the 1920s, did not want to engage less skilled workers in their work, and they were very unready to solve the problem of the union formation and management of their staff.

This is how the increase in the living standard of American families strongly influenced a decline in radicalism of the union policy. The rumour had it at the time that the Ford's auto factory made a lot of harm to the American unions for "as long as the people had enough money to buy cars, wires and petrol, they were outside and did not pay any attention to union gatherings".[52] The 'capitalism of welfare' provided more and more corporate sport facilities, paid holiday, insurance, pension funds so that in 1927, 4.7 million workers were covered by the group insurance system, and 1.4 million were the members of the company unions.[53]

6. Mass consumption as a philosophy of life

During the 1920s, there was a widespread belief that the United States entered an age of permanent wealth; it was also believed that the mass production, as well as advanced architecture, was reducing and eliminating poverty, providing for the first time in history, high livings standards for everyone. This attitude was widely supported by business people. They stopped looking down on ordinary people as they were in the period after the Civil War (1861-1865), but they made efforts to present themselves as the servants of the public interest. The Rotary Club and other associations of business people preached so high ethical norms. Most large corporations felt the need to be supported by the public and spent enormous amounts of money on new and fine ways of advertising.[54] At business lunchtimes all over the country, it was often claimed that Jesus Christ was the first rotary club member. The American author Bruce Barton even wrote the book where he gave Christ the role of the top businessman of all times, emphasising that the common responsibility of both business and religion was dedication to the same aim – the improvement of a people's lives. Some of the American preachers did not approve of this attitude and pointed out that "if businessmen invite preachers to prey for the success in the opening of airports or railways, or to ask for blessing on profitable engagements like opening a weir, the church was but a vassal of the new emperor. In fact, they wanted a new religion, which meant they forced the church to help them gain more profits".[55] However, many preachers held the view that business was a generous profession, aimed at helping everyone.

52 P. Džonson, op. cit., p. 661.

53 Ibid.

54 M. Klein, op. cit., pp. 125-135; D. E. Kyvig, op. cit., pp. 187-208.

55 W. Sloat, op. cit., pp. 14.

Yet, serious business hardly needed any patron in the 1920s. It was generally believed that the prevailing business trend with big and mass business structures in fact led to the solution of social problems. The leaders of the so-called economic and financial elite also supported this theory, although they themselves were born in the time of the undisciplined, unorganized and uncontrolled capitalism. Obviously, business went on gaining profits. However, an increasing willingness of the economic leaders to recognize their social obligations and realize that prosperity depended on buying power of the wide circle of population, signified a new tendency, though the practice was not always in conformity with the rule.[56]

The culture of massive consumption that has been formatted since 1920 cannot be described in a simple way in a densely populated and large country such as the United States. Namely, any effort to describe any era of the history of the American society has to consider ideas, values and tastes that were particularly noticeable and developed. Showing their strength and true nature can help giving the answers to one of the main issues of this article, which is the way the culture of mass consumption was passed on in the American society.

It is fully clear that the very essence of the culture of mass consumption was a widespread and accepted belief in availability of pleasures. The Americans believed that they enjoyed every day in a wide range of various opportunities and facilities that could satisfy even the deepest needs and desires. What the American family and local communities used to consider their utmost meaning of life, which meant the acceptance of social, economic and material limitations, did not exist any more. For the Americans, material pleasures were more and more available and they only waited to be used and enjoyed. A participation in the culture of the mass consumption was not only possible but also desirable, for it was about the experience of joint pleasure. Consumption and enjoying could only be out of reach if one made a personal mistake or failed at doing something.[57] "A modern person is not motivated any more by personal sacrifice or ascetism, but ultimate egoism and personal interest…, which is an obvious contradiction… for one believes to be motivated by personal interest and in fact his or her life is devoted to some interest that do not belong to him or her. *Personal I* that a modern person works for is a *social I*, which is in fact shaped by the expected role of the individual in the society and which is just a subjective transformation for an objective actual social function. Modern selfishness is a greed that has its roots in the frustration of the true personal ego and its subject is the social me.[58] This is how conformism, which represented a total compliance of an individual with the cultural model and norms of behaviour that a social environment pre-

56 Ibid.; D. E. Kyvig, op. cit., pp. 187-208; M. Klein, op. cit., pp. 125-135.

57 Ibid.

58 E. From, op. cit., pp. 109-110, 112.

scribed"[59], became a predominant characteristic of the American society. In that society one became what was expected of them, which meant, in the first place, they did not differ in any single thing. Availability of various pleasures or at least the picture of it, justified the amount of pleasure of the economic and political elite due to an increase in the population that belonged the social category of the middle class. Even the fact that a large segment of the American society included relatively poor Americans, could not persuade the elite that the idea of availability of all life's pleasures was not sustainable.

The main reason for the increase in the belief of acquiring of material wealth, and simultaneously one of the most typical characteristics of the life in the American society during the 1920s was a huge expansion of the new style of the commercial advertising. Until 1920, over 2.9 billion dollars a year were spent on advertising, this was more than twice in comparison with the same expenditures only five years before and almost six times more than it was at the beginning of the 20th century. Until 1929 additional half billion spent on advertising raised the total costs of advertising to 3.4% dollars.[60]

Advertising appeared in different forms. Some of new technologies were used in advertising to provide new possibilities of transmitting commercial messages. For example, flooding with cars started the billboard and commercial business on road signs on important routes. At the same time, radio broadcasts were financially more ad more dependent on broadcast commercials, whereas mail brochures and other advertising means kept their importance at the same time and the role they had before World War One. Printed advertising, however, covered the biggest part of the market during the 1920s. In that respect, the most important part of advertising was the press. What happened is that what the Americans were reading became very standardized in time. Magazines as well as the papers were equally available to a wide circle of the reading public. That is the way almost 4,500 periodicals were printed every year in even 180 million per one edition by 1925. Advertising revenue provided the largest part of income, which then made it possible for the subscription price to be lower, and for the copies sold at paper shops.[61] This made Jackson Lears, a historian, to write down "magazines were a simple invention to make people read adverts".[62]

One must admit that the famous German psychiatrist and psychoanalyst Erick From, from the very source in the United States, was the first to notice all traps of the modern advertisement in its creation process, and development of the ideology of the consumer society. Even as early as in the 1930s he wrote that the modern advertisement did not address to mind but emotions ant that "like

59 Ibid., p. 114.

60 M. Klein, op. cit., pp. 109-111.

61 Ibid.; W. Sloat, op. cit., pp. 105-110.

62 L. Jackson, *Fables of Abundance: A Cultural History of Advertising in America*, Basic Books, New York, 1994, p. 201.

any hypnotic suggestion, it is trying to affect its objects emotionally and then make them intellectually inferior. Such advertisement uses all kinds of means to make an impression on the buyer: by a frequent repetition of the same pattern; by the influence of an authoritative picture..., attracting the customers, simultaneously weakening their critical capabilities".[63]

Once all this is taken into account, it is clear that the economic experience during the 1920s could not make the American people ready for what was following during the 1930s. A widespread pattern of economic growth, which was so typical of the 1920s, was particularly emphasised due to post-war economic difficulties. However, as it was often repeated, the economic growth was big, but not well balanced. In 1921 after a huge production expansion in agriculture in war times, a disastrous decline of 44% in prices of agricultural products followed. During the 1920s, agriculture did not manage to recover fully. By the loss of the foreign market, hyper production was more or less chronic and the prices of agricultural products remained low. When one compares prices of agricultural products with prices of other products in 1929, farmers were in a worse position by 11% than in 1913. Few were capable of paying high interest rates for loans they had taken in prosperous wartime, so there were more and more mortgages and leasing. Relatively few rich farmers did not have true reason to complain, but millions of farmer families, especially in the South, were almost starving. Mining and wood industry also missed this economic expansion and many could not enjoy the benefits of economic prosperity. During the 1920s the wages of workers from these industries increased nominally by 9%, which was significant compared to the standard of the decade, but it was minor compared to the increase of 63% of the nominal corporative profit.[64]

Therefore, the annual income of a family was distributed unevenly. Whereas in 1929 the incomes of 36,000 families were over 75,000 dollars, the incomes of 12 million families were lower than 1,500 dollars, which meant , according to an analysis of the federal government, bordering on poverty (these figures should be multiplied by 10 to obtain a rough equivalent of today's value expressed in dollars).[65] This can be more easily understood if one looks at a geographic view of the population and their income rates, for it is the way to show that incomes were unevenly distributed between the population of urban and rural regions, as well as among different regions. In 1929, the employed in the Northeast urban regions from New York to Boston had the highest annual income – around 1000 dollars per head. Wages of farmers in this region were 366 dollars – one third only of those earned by employed industrial urban population. Comparative data for other regions say that the circumstances were even more miserable: in the mid West urban workers earned 854 dollars, farmers 262 dollars a year; in the

63 E. From, op. cit., p. 121.

64 D. E. Kyvig, op. cit., pp. 187-208; H. B. Parks, op. cit., pp. 600-601.

65 De. E. Kyvig, op. cit., pp. 211.

far West the figures were 953 dollars and 818 dollars; in the-inner part of the Northwest: 703 dollars and 426 dollars and inner part of Southeast, where urban workers earned 535 dollars and farmers earned 183 dollars a year on average. The most conspicuous gap in wages in the geographical sense was the gap between the Northeast and Southeast, as almost everywhere between the employed in non-agricultural industries and agriculture as well.[66]

According to the analysis made by the federal government, even on top of the rise of the economic wave of the 1920s, poverty was common for at least two fifths of the American population because their annual income was below 1,500 dollars. The Brookings Institution of Washington reported something higher standard than the federal government, assuming that 2,000 dollars of the annual income was enough to cover "the essential needs of a decent life" of a family of four. According to this institute's estimates, over 60% of American families lived bellow the acceptable standards. Until the end of the 1920s, it was very difficult for many workers' families to keep the pace, to repay automobiles or buy some new ones. One of the bad sides of the new economy growth based on the automobiles that were yet to be paid was the fact that the automobile lifecycle could be easily prolonged when there was no enough money to buy a new one, which was also the situation for most other goods. Therefore, a failure to transmit the results of the increased productivity on consumers, mainly through lower prices, started taking its toll at the end of the 1920s. As the economic boom went on with no decrease in prices, it got more difficult for consumers to sustain this advancement.[67]

It might be said that extreme poverty did not seem unusual. What did seem unusual was the unbelievable fast economic expansion in only eight years, which was the reason the focus of historians of economy of all times was on these 'roaring twenties'. It was based firstly on the availability of consumer goods such as automobiles, radios, household appliances, various types of food and cosmetics. Mass market for these and many other products was encouraged by adverts and was advanced by an increase in the availability of consumer loans. The signs of prosperity were noticeable both for the middle class Americans, even those who could not afford a lot but also for these luckier ones, with higher income.

7. Financial policy of the Federal Reserves System

As most economists believe, as the more wealthy classes are saving larger part of their income the poor are saving little or none, an unequal distribution of income leads to a fast increase in savings. This can be positive only in case savings can be invested in the expansion of industry. However, the purpose of expansion is to produce as many goods for consumers and it is useful only in

[66] Ibid.

[67] Ibid.; P. Džonson, op. cit., p. 653.

case people are capable and willing to buy. This is why an economic system will inevitably face problems if it is allowed that savings go over the purchasing power of consumers.[68] Exactly this happened in the United States at the end of the 1920s and it led to a situation that this period was drastically different from all previous periods of prosperity. People with higher income left aside large amounts of money. Most large corporations stacked up their savings instead of distributing their profits to the shareholders.[69]

It raises the issue of why insufficient buying power did not appear before 1929. The increase of buying on credit could give an answer. Large quantities of goods sold during the 1920s, very durable consumer goods that accounted for such a significant part of the industrial production, were not paid. This process of debt accumulation, however, could not last forever. Borrowing money and buying on credit was temporarily enlarging the market, but sooner or later debts had to be repaid, which inevitably led to a decline in the market.[70]

One of the most frequent ways of indebtedness in the United States was buying consumer goods on credit. Such purchase was estimated to be five billion dollars a year on average between 1923 and 1929. An average American family bought the car and appliances by paying immediately a small sum and repaying the rest in years to come, according to loan contracts. Some other forms of private debts were developed at the same time. Until 1930 total mortgage debt of farms amounted to 9.2 billion dollars, whereas the city mortgage debt reached the colossal figure of 26 billion dollars. Entrepreneurs, especially those who owned small or medium sized enterprises also borrowed large sums in order to enlarge production. That is how a much entangled system of debt obligations developed by the end of the 1920s. Total sum of private debts, long term and short term exceeded 200 billion dollars and it seemed that everyone owed money to everyone. Due to all this, the economy inevitably had to be subject to depressions, for whenever a group could not fulfil their obligations, “the whole economic structure started to lose its stability”.[71]

At the same time, the public debt rose significantly. Though the federal government decreased the national debt, certain states and municipal authorities piled bonds for the construction of roads, bridges, institutions and hospitals. During the 1920s, three billion dollars on average were spent on public institutions. It was only partly paid by the tax income, but besides it, even in 1930 total debt of local governments reached an amount of 16 billion dollars.[72]

[68] J. M. Keyns, *Opšta teorija zaposlenosti, kamate i novca*, Kultura, Beograd, 1956, pp. 143-147.

[69] Ibid.; P. A. Baran, M. P. Sweezy, *Monopolni kapitalizam, Eseji o američkom ekonomskom i društvenom poretku*, Stvarnost, Zagreb, 1969, pp. 202-217; L. R. Heilbroner, op. cit., pp. 58-95.

[70] Ibid.

[71] M. Klein, op. cit., pp. 88-95; H. B. Parks, op. cit., p. 623; K. E. Pool, *Fiscal Policies and The American Economy*, Prentice-Hall Inc., New York, 1951, pp. 63-66.

[72] Ibid.

According to the opinion of the leading American economic historians who mostly based their claims on a historical analysis of the famous economist Milton Freedman, the United States, together with the British and other leading industrial and financial powers during the 1920s, tried to keep the prosperity of the world by increasing the money supply. It was possible owing to the federal reserves system even secretly, with no legal decisions or control and public knowledge, i.e. worried business circles. Though money supply remained stable (at the beginning of the 1920s, it amounted to 3.68 billion dollars, and in 1929 it totalled 3.64 billion dollars), credit supply rose from 45.3 billion in June 1921 to 73 billion in July in 1929, which was an increase of 61.8% in eight years. The White House, the treasurer Andrew W. Mellon, who was constantly on duty from 1921 to 1931, the Congress, public as well as private banks; they all shared the responsibility for growth of credit supply. Loan expansion would not have had such an extent if it had been allowed for the interest rates to stabilise spontaneously, in other words producers farmers were repaying their loans under those interest rates that the savers were willing to invest in banks. Instead of that, there was an artificial keeping of interest rates on an unnaturally low level. The established policy of the Federal Reserves relied on that not only to enlarge creditor means but also to make interest rates low enough to stimulate, protect and advance all kinds of legitimate business.[73]

The creators of such economic policy were believed to be Benjamin Strong, governor of the New York bank of the federal reserves, who, until his death, in 1928 had all power in the process of creation of financial policy of the United States and Montague Norman, governor of the bank of England. It is believed that the essence of their controversial financial policy was inspired by very influential scientific research of 1923 *Discourse on Monetary Reforms*, written by the economist John Maynard Keynes. According to this opinion, part of the problem was that Keynes's *Discourse* was in favour of controlling the currency and stable level of prices and it required a constant involvement of the government. Strong and Norman really controlled the currency in a coordinated way and on the international level. It is believed that they were constantly loading more money into the system and whenever the economy showed some signs of fragility, they increased dosage. In that sense, the most prominent was the international meeting of bankers on Long Island organized by Strong and Norman, which happened in July 1927. It was decided at this meeting that there would be another decrease of interest rates, so the New York Bank of Federal Reserves then decreased their interest rates to 3.5%, which in those circumstances was an unbelievably low

73 M. Friedman, R. Friedman, *Sloboda izbora, lični stav*, Global book, Novi Sad, 1996, pp. 89-98; E. Hobsbaum, *Doba ekstrema – kratka istorija dvadesetog veka 1914-1991*, Dereta, Beograd, 2002, pp. 70-71; P. Džonson, op. cit., pp. 659-660.

rate. That is why it is often stated nowadays that this was exactly one of the most expensive mistakes that a banking system made in the last 75 years.[74]

Yet, such monetary policy turned out to be successful in the short run. In the first half of the third decade, the world trade did not manage to return to its pre-war period level owing mostly to the American protectionism. In fact, in the period between 1921 and 1925, the world trade was lower by 1.4% compared to the period between 1911 and 1914. During the four years, from 1926 to 1929, it reached an increase of 6.74%, a success that was not surpassed until the late fifties. However, prices remained fairly stable, oscillating between the index of 93.4 in June 1921, and over 104.5 in November 1925, and then again decreased by 95.2 in June 1929.[75] It suggested that the policy of a well-thought control of the rate of economic growth, within the range of stable prices, turned into reality.

This planned credit expansion policy was implemented not only on the national but also on international level. The American government asked for the repayment of its war loans lent to European countries, mostly to Britain and France but it also actively encouraged foreign governments and business world to lend money on Wall Street by its policy of cheap money and constant interference in foreign stock market. It favoured loans to other governments in order to maintain the international economic order, the advancement of the American export industry as well as the support to certain regimes. A stormy expansion of loans to the foreign countries started on May 25, 1921, after the meeting of President Harding, foreign trade minister Hoover, and representatives of foreign banks.[76]

That is how total American long-term investments aboard rose to almost 15.4 billion dollars by 1929; 7.8 billion dollars were foreign stocks and shares owned by the Americans, whereas 7.6 billion dollars represented the American property abroad; a total of 5.4 billion dollars was invested in Latin America, 4.6 billion dollars in Europe, 3.7 billion dollars in Canada and 1.4 billion dollars in Asia and Pacific. As foreigners invested 5.7 billion dollars in the United States, it meant that the net capital export of America totalled 9.7 billion dollars.[77]

One of the investment aims in foreign countries was to provide the purchase of American goods in larger quantities. The United States continued to export some agricultural products, especially cotton (more than half of produced cotton was exported abroad), tobacco and wheat. They also flooded the rest of the world with industrial goods, penetrating the markets previously dominated by the British and German. Between 1922 and 1929, the American exports overcame the imports by an average of 700 million dollars a year. In other words, the

74 Ibid.

75 Ibid. (1939 = 100)

76 Ch. P. Kindleberger, *The World in Depression 1929-1939*, Allen Lane and Penguin Press, London, 1973, pp. 57-72; H. B. Parks, op. cit., p. 623.

77 Ibid.

American economy sold part of its products by exporting and at the same time, they were lending money to foreign countries they paid the products to.[78]

If the creditor country invests in undeveloped areas in an economically rational way (by the railways construction and communal institutions development, for instance) and expects modest long-term profits and not fast risky ones, than the process may be useful to both sides. Some American investments abroad had that nature in the 1920s. Unfortunately, many of these things were abused. It relates first to the purchase of stocks issued by foreign countries. Though the Ministry of Foreign Affairs required previous information on foreign loans, the efficient government control did not exist. Bankers from Wall Street were in charge of the process and many of them were more interested in collecting commission fee, rather than finding a way to invest safely the savings entrusted to them by American citizens.[79]

If American bankers should not be criticised for investing huge amounts in Germany, due to the impossibility to predict the occurrence of Nazism, they could be accused of lending irresponsibly almost two billion dollars to mostly dictatorship governments in Latin America. It is believed that bankers were so eager to earn money that they even paid huge prize to influential citizens in those countries just to have as many loans as possible. Therefore, the son of the president of Peru was paid 415,000 dollars, whereas the son in law of president of Cuba received 500,000 dollars and he got the annual salary of 19,000 dollars. If those two billion dollars had been better invested, they could have done much more for the peoples of Latin America. Instead of that, money was mostly spent on war equipment and, useless public buildings as well as the other unproductive purposes. Therefore, dictators got the money, Wall Street its commission fee and those who paid were mainly gullible investors from all parts of the United States. When all this is considered, it is not surprising that during the Depression, all countries of Latin America (except for two) stopped repaying their debts and two thirds of these loans have never been repaid.[80]

“American bankers disposed with the money of their citizens with the simplicity that was the most sensational but not the only characteristic of foreign loans. The fact that America became a creditor had raised some fundamental issues on government policy. The loans were given to foreign states under the supposition they were going to be repaid back with an interest. But at the end, the borrowers could meat their financial obligations only if they sold goods on American market. Yet, while investing their capital abroad, the United States were undertaking protective foreign trade policy aiming to preserve American market fore domestic products, so they continued to export mach more than to import. So, their economic policy became ‘lunatic’. They could not dispose for-

[78] Ibid.; P. Kenedi, op. cit., pp. 313-317; E. Hobsbaum, op. cit., pp. 71-73.

[79] Ibid.

[80] Ibid.

ever with money and commodity surpluses on foreign markets unless they were willing to give up the debt repayments".[81]

Therefore after 1929, interest rates paid on previous loans given to foreign countries increased so much that they exceeded new loans given to those countries. This could be the consequence just of the decline in the American exports and one of the causes that led to the Great Depression.[82]

Such American economic policy ended at the end of 1928, which exactly coincided with the expansion of money supply that the economic growth was founded on. American executives rejected a *laissez-faire* policy of free trade and expensive money, accepting the option of high customs duties and credit expansion. It was obvious that even domestic industry, protected by the import customs duties, benefited from such economic policy, but also exports industry, subsidised by privileged loans, as well as investing bankers who launched loans. The main loser of such economic policy was the population who succumbed to the new consumer ideology, although they were deprived from competitive prices based on cheap imports and because they would have become the universal victim of the sudden, devastating economic crisis.[83]

8. Conclusion

The prevailing economic theory in the United States in the 1920s consisted of a prediction that if business is encouraged to earn stable profits and enlarge production, there will be work for everyone and prosperity will include all layers of the population. The republican administrations of generations, Harding, Coolidge and Hoover especially encouraged individualism and economic policy of *laissez-faire* and President Herbert Hoover even tried to promote cooperation between the economy and federal government.

The most conspicuous aspect of this new world was precisely a sudden change or transformation caused by the creation of the new system of values of the post-war generation, shockingly different in relation to the generation of their fathers. What people started calling modernism, was developed in the lives of the American people at the beginning of the 20th century reaching its peak in the post-war America, together with the far-reaching changes in the economy (quite encouraged during the war) which increased productivity to an unbelievable extent. A faster development of key domestic technologies such as electric energy, automobiles, movies and radio drastically reshaped lifestyles of the American people.

Economic and social changes were nothing new but they had never before affected and changed so quickly the life of a huge number of the American peo-

[81] H. B. Parks, op. cit., p. 625.

[82] K. E. Pool, op. cit., pp. 63-66.

[83] Ibid.

ple. The doctrine of saving modesty applied in the 19^{th} century was replaced by new imperatives of consumption and pleasure, no matter whether it was about business, industry, finances, religion, personal habits or traditional values. That is how the very essence of the American ideology of the consumer society was a widespread and well-accepted belief that most pleasures are easily available. Impressed by comfort, and advertising of the new consumer civilization, stimulated by good chances for future, the American people attached particular importance to the stock market. What were particularly attractive were promises about fast and easy ways to earn money, which was in collision with inevitable hard work and mere survival. The new consumer economy offered so many different things for sale so that it does not surprise that it encouraged the desire of the people for a nicer and happier life.

What encouraged economic growth was the trust in the increase by itself. The increase of the stock market on Wall Street was bigger than the growth that would be defined by the increase of the economic activities in the prosperous stage of the economic process; it was the increase in optimism in the American collective way of thinking and feeling. With the stock market constantly developing, Americans soon discovered that they lived in a changed world, which constantly required new ideas, new way of thinking and new set of values; the psychological climate was changing and each change in the set of values of the American people was leading to new challenges.

The basis of American prosperity was in essence very weak, especially because agriculture was literally already in depression and personal incomes did not grow in real terms, actually they stagnated in the last 'crazy years' of the economic boom. What happened, as it often happens with the expansion of free markets, was that profits rose while salaries were behind them which led to a situation that the rich got the larger share of the national income. Aggregate demand could not keep up with the productivity of the industry, which was increasingly developing, so the result was hyper-production and speculations. They caused the economic collapse, which then led to a huge decrease in demand.

What made the American economic system so sensitive to such credit boom was the fact that consumers did not buy traditional products of mass consumption on credit, or the items like food, clothes and so on, products that meant mere survival, for which the demand was constant. No matter how poor people were, they could not decrease their demand for groceries bellow a certain point and that demand would not double even if their incomes did. Instead of that, consumers in the United States bought durable goods of the modern consumer society. Yet, with no borrowing, the purchase of a car or house could easily be postponed for some better times, since their demand was elastic and depended on income. In brief, new products and new way of life required a fast widening of high income level as well as a high level of belief in future but this was in fact what was devastated in the period between 1929 and 1933.

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PUBLIC TRANSPORT AND DEVELOPMENT OF CHINESE CITIES*

Abstract: *Although the process of development of large cities was tacitly supported in China ever since 1949, it did not actually gain its momentum until 1978, when China focused on export oriented industrialization, allowing a gigantic inflow of direct foreign investments to its so-called special economic zones, open towns and triangles of development. As early as at the beginning of the 1990s, the automobile industry was decreed the foundation of economic development and this simultaneously represented the beginning of construction of an imposing network of urban and intercity roads. Having said this, China does not have any significant oil resources, as it used to be assumed. Such pro-automobile strategy in overpopulated China (with a clear aim: one automobile in one household) not only seriously damages the sustainable development of (extremely compact and densely populated) Chinese cities, but also dramatically threatens unrenewable global resources.*

Key words: *Chinese cities, sustainable urban development, public transport.*

1. Introduction

Urban development in China has always been only a small part of its ultimate aims, which were often dramatically changed and performed in a brutal, centralised and controlled way. That is why the development of Chinese cities must be considered in a much wider context than just urban development in market economies. The first part of this article gives some characteristics of the policy of regional and urban development from 1949 to1978, when the reduction of uneven regional development became a developmental priority. The second part explains details of urban development of China after 1979, when China opened its borders for direct foreign investments. Finally, the third part questions the controversies over contemporary urban Chinese development, which result from the Chinese government adoption of the strategy 'one automobile in a household'.

* *Translated from Serbian by Maša Stojičić.*

1. Regional and urban development policy from 1949 to 1978

China was one of the most obvious models of uneven regional development until the 1949 Revolution. Approximately 90% of its industrial infrastructure was concentrated along the coast (with one fifth in Shangai), in 'open ports'[1], controlled by foreigners and with the Chinese who did not feel at home because they were constantly humiliated. R.Murphey says there was even a notice board in a Shangai park saying, "Forbidden for dogs and the Chinese'!"[2]

During the opening years after the Revolution, people huddled from the poor and deprived country into the cities that were not ready to carry the burden[3]. Although new communist leaders were considered to have ideologically extreme antiurban attitude, the true reason to send the crowds back to the country was the strong need for industrialization. [4]

Even as early as in the 1950s, China defined a very clear strategy of urbanisation:

- Limitation of city development by creating 'satellite cities' and dispersion of industry and workforce;
- Control and limitation of increase in urban population through limitation of migration from the country into the city, decrease in (high) natural population growth and planned delegation of educated young people to the country. [5]
- The process of 'socialist transformation of Chinese cities' was characterised by the following aims:
- Transformation of consumer cities into production, industrial ones;
- Creation of a new socioeconomic pattern that would reflect the unity of people and the classless society;
- Creation of the connection and unity between workers and peasants and therefore between the city and surrounding rural regions.

[1] China was bound by the contract to keep the ports open for international trade.

[2] R. Murphey, *The Fading of the Maoist Vision: City and Country in China's Development*, Methuen, London, 1980, pp. 27-31; R. Murphey, "City as a Mirror of Society: China, Tradition and Modernization", in: J. A. Agnew, J. Mercer, D. E. Sopher, eds.: *The City in Cultural Context*, Allen and Unwin, 1984, p. 197.

[3] R. Murphey, The Fading of the Maoist Vision: City and Country in China's Development, Methuen, London, 1984, p. 43; R. J. R. Kirkby, Urbanization in China: Town and Country in a Developing Economy 1949-2000 AD., Croom Helm, London, 1985, p. 58.

[4] R. J. R. Kirkby, op. cit., p. 14.

[5] V. Sit, ed., *Chinese Cities: The Growth of the Metropolis since 1949*, Oxford University Press, Hong Kong/Oxford/New York, 1988, p. 9.

This resulted in constant enlargement of administrative borders of the city and inclusion of increasingly bigger agricultural areas into metropolitan areas.[6]

China seemingly succeeded in its endeavour. Unlike some developing countries characterised by the sudden increase in the percentage of urban population, the percentage of Chinese urban population increased slowly, from 10.6% in 1949 to only 13.9% in 1981 (Table 1).

Table 1: *Percentage of urban population in total population of China*

YEAR	Total population (in thousands)	Urban population (in thousands)	Percentage of urban population in total total population (%)
1949	541,670	57,650	10.6
1953	582,603	77,669	13.2
1972	867,270	-	-
1981	996,220	138,700	13.9

Source: V. Sit, ed.: *Chinese Cities: The Growth of the Metropolis Since 1949*, Oxford Univesity Press, Hong Kong/Oxford/New York, 1988

Such type of urbanisation and its aims, as well as the transformation of Chinese cities, were called de-urbanisation even anti-urbanisation by some researchers.[7]

Although one of the main, often specified objectives of social development was resolving the dichotomy between the city and the country, it is useful to distinguish the official rhetoric from true objectives.

Table 2: *Share of large city population in urban and total population of China*

CITY	1953		1972		1981	
	Share in urban population (%)	Share in total population (%)	Share in urban population (%)	Share in total population (%)	Share in urban population (%)	Share in total population (%)
Over one million residents	27.1	3.6	27.8	5.9	52.1	7.3
Over 0,5 mill. residents	41.6	5.5	37.4	8.0	73.2	10.2

Source: V. Sit, ed., *Chinese Cities: The Growth of the Metropolis Since 1949*, Oxford University Press, Hong Kong/Oxford/New York, 1988

6 V. Sit, ed., op. cit., p. 40-41.

7 C. P. Cell, De-urbanization in China: the Urban Contradiction", *BCAS*, No. 1, 1979, p. 62-72; R. Murphey, "The Urban Road to Development" u: C. K. Leung, N. Ginsburg, eds.: *China: Urbanization and National Development*, Chicago University Press, 1980, pp. 111-129.

Since 1953, when there were only nine big cities in China with over million inhabitants, this figure rose to 37 by 1981, so it multiplied more than four times (Table 2). The increase in urban population of China happened in the biggest metropolis, with the population over half a million.[8] Those are economic reasons that were fundamentally influential over the development of big cities. Despite the official line on the importance of balanced regional development and dispersive development of industry, only in Shangai, Beijing and Tianin with only 2.8% of the total Chinese population, one fifth of the national industrial product was created.

Together with the (officially tacit) process of the concentration of industrial production in big cities, the process of controlled delegation of professional people was carried out.

Mao Tse-tung insisted that *regional inequality should be eliminated* by redirecting resources from eastern regions deep into the country. Millions of young educated people (graduates) were withdrawn from the cities in a planned way in order to create a structure for the implementation of agricultural development. The whole idea depended on some 15 million experts, practically deported from the cities, who did not want anything but to return to the cities. Totally indifferent, uninterested in agriculture, often in conflict with peasants, they soon became a rich source of emigrants to Hong Kong whose meteoric success they helped.[9] This process was particularly remarkable at the end of the 1950s – at the time of the disastrous 'big leap', and at the end of the 1960s – at the time of the 'cultural revolution'.[10]

The process of regional transformation of China during Mao Tse-tung reign can be divided into three periods. Firstly, during the implementation of the first five-year plan (1953-1964), regional disparities diminished successfully. Financial sources from more prosperous regions were distributed to the country, to the undeveloped regions, whose share in total government institutions raised from 48% to 60% from 1953-1956. However, during the 'big leap', from 1958-1960, these disparities were intensified once again. Secondly, at the time of the formation of the Third Front, the heavy industry of China (the steel and iron industry and military industry) was withdrawn to the country, owing to an extremely tense relation with the Soviet Union (which made the pact with Mongolia in 1966 and deployed all its military troops along the border). Mountains and caves were

8 Even 87% of total increase in urban population from 1953 to 1981 happened in the cities with the population over 500.000. V. Sit, ed.: op. cit., p. 27.

9 R. Murphey, *The Fading of the Maoist Vision: City and Country in China's Development*, Methuen, London, 1980, p. 105-107; R. Murphey, "City as a Mirror of Society: China, Tradition and Modernization" in: J. A. Agnew, J. Mercer, D. E. Sopher, eds.: *The City in Cultural Context*, Boston: Allen and Unwin, 1984, p. 200.

10 R. J. R. Kirkby, op. cit., p. 10.

favourite locations, [11] where each production unit had a complete production process and its own transport means in order to fulfill the directive on self-sufficiency. [12] This is how more than two thousand large and middle-sized industrial, research and educational projects were carried out in the countryside, which was characterised by the lack of technology, infrastructure and human resources.

There were 45 new production centers opened as well as 30 new industrial cities,[13] and the share of government investments in Chinese countryside jumped from 58% to 71% from 1972 to 1977. The regional strategy of economic convergence resulted in such an economic crisis that the gross domestic product (GDP) per capita was almost the same in 1978 as in the middle of the 1950s.[14] The latest analysis therefore shows that even the proclaimed policy on the reduction of regional disparities was not implemented.

3. Urban development since 1979

Since the end of the 1970s and the beginning of the 1980s, during the rule of Deng Hsiao Ping (conservative regime according to the classic Maoist standards, and radical, according to all the others), the previous policy on regional and urban development was abandoned. Unlike socialist countries of Central and Eastern Europe, the economic development focused on the export-oriented capitalistic industrialisation by introducing direct foreign investments. GDP had significantly faster growth since then than in the countries of Eastern and Central Europe, as well as other Asian developing economies and its growth rate could be compared with relevant rates of Japan between 1960 and 1974 and South Korea from1965 to 1978.[15]

After 1978, the post-Maoist economic growth of China was characterised by a huge inflow of direct foreign investments, far higher than in other socialist countries and ASEAN countries. Share of direct foreign investments reached 16.1% of GDP by 1996. Owing to these investments, foreign markets became available and foreign trade increased. Shares of direct foreign investments in total Chinese export increased from 1.1% in 1985 to 20.4% in 1992 and 40.7%

[11] Sung-Cheol Lee, Kark-Bum Lee, „Inward Investment and the Transformation of Regional Economies in China", *DISP*, No. 30, 2002, p. 35.

[12] C. C. Fan, „Of Belts and Ladders: State Policy and Uneven Regional Development in Post-Mao China", *Annals of American Geographer*, No. 3, 1995, p. 423.

[13] L. J. C. Ma, Y. Wei, „Determinants of State Investments in China, 1953-1990", *Tjjdshrift voor Economische en Sociale Geopgrafie*, Vol. 88, No. 3, 1993, p. 220.

[14] D. Perkins, „Completing China's Move to the Marker", *Journal of the Economic Perspectives*, 1994, p. 23.

[15] A. Smart, „Economic Transformation in China" in: J. Pickels, A. Smith, eds.: *Theorising Transition: the Political Economy of Post-communist Transformations*, Routledge, London, 1988, p. 428.

in 1996. Foreign investments also contributed to the increase in employment, though not significantly because in 1996 only 5.4 million Chinese people in companies founded by foreign investments, which accounted for only 2.7% of work force in the cities.[16]

Table 3: *Share in foreign investments in countries in transition and countries of Southeast Asia (% of total world direct foreign investments in mill.US dollars)*

	1984-1989	1990	1991	1992	1993	1994	1995
China	1.98	1.71	2.77	6.64	13.23	14.97	11,91
Indonesia	0.12	0.08	0.09	0.09	0.13	0.27	0.56
Malaysia	0.69	1.14	2.53	3.08	2.41	1.94	1.84
Phillipines	0.28	0.26	0.34	0.14	0.49	0.65	0.48
Tailand	0.59	1.20	1.28	1.26	0.83	0.28	0.73
Vietnam	0.00	0.01	0.02	0.01	0.01	0.04	0.05
Slovakia	-	-	-	-	0.10	0.13	0.08
Czech Republik	-	-	-	-	0.27	0.38	0.79
Czechoslovakia	0.04	0.1	0.38	0.66	-	-	-
Poland	0.01	0.04	0.18	0.40	0.82	0.83	0.80
Hungary	-	-	0.93	0.88	1.13	0.51	1.11
World (in mil. US dollars)	115,370 (100%)	203,812 (100%)	157,730 (100%)	168,122 (100%)	207,937 (100%)	225,660 (100%)	314,933 (100%)

Source: Sung-Cheol Lee, Kark-Bum Lee, "Inward Investment and the Transformation of Regional Economies in China", *DISP*, No. 30, 2002, p. 31.

Direct foreign investments in China were characterised by their position along the southeast coastline. After passing the Law on Joint Ventures in 1979,[17] investments were at first concentrated in four special economic zones: Shenzhen, Zhihai, Shanties (in the province of Guangdong) and in Ksiyanmen (in the province of Fuijan), which served as an obvious field test of social and economic reforms. After that, from 1984-1986, the concept of special economic zones was expanded to 14 seaside 'open cities' including Shangai, Tianjin, Guangzhou and Ningbo. Three 'triangles of development' opened up for foreign investments in 1985: the Yangtze delta, the Pearl delta (in the Guangdong province) and the

[16] Soung-Cheol Lee, Klark-Bum Lee. "Inward Investment and the Transformation of Regional Economies in China", *DISP*, No. 30, 2002, p.31

[17] N. R. Lardy, *China in the World Economy*, Institute for the International Economics, 1994, p. 63.

Min Nan region (in the Fuijan province).[18] Further foreign investments were promoted by passing new laws in 1983 and 1985, encouraged further foreign investments and in 1988, the province of Hainjan became the fifth, the biggest special economic zone, and the strip of open ports on the Chinese coastline was finally completed. A new 'open' Pudong zone was added to Shangai afterwards. This is how the coastline strip of 'open ports' was completed by 1990. The following period saw a gradual 'opening up' of the regions in the country.

To sum it up, 88.2% of direct foreign investments were concentrated in the eastern part of China, in Beijing, Shangai, Tijanjin, Guangdong, only 9.7% in central and 2, 1% in the west region.[19] Three different sources of direct foreign investments can be traced here: Korea for Shandong, Hong Kong for Guangdong and Taiwan and Hong Kong for Fijian.[20]

Unlike many expectations, this sudden economic and demographic development of open ports and free zones was not followed by an adequate development of housing stock. Even after 1978, the previous policy was continued to a large extent and the government strategy was 'first production, then consumption' . Housing stock in towns was considered a 'nonproductive investment', far less important than 'productive investments' like factories and industrial plants. As insignificant rent payments were collected – far lower than the cost of flats maintenance – investments in the housing stock were discouraged, the existing stock was gradually damaged, and flats were becoming increasingly crowded.[21] Although there has been some liberalisation of the issue in recent years and investing of private capital in the housing stock suddenly rose,[22] "the public sector still had a decisive role in development. The public sector not only finances over 60% of the new housing stock, but it also buys most of those commercial houses and they directly or indirectly) sell them to urban population at subsidised prices."[23]

3.1. Huge population densities and compact structure of Chinese cities

Such urbanisation policy led to an extremely compact structure and huge population densities in Chinese cities, which is more evident here than in metro-

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18 C. Chen, L. Chen, Y. Zang, "The Role of Foreign Investment in China's Post-1978 Economic Development", *World Development*, 23 (4), 1995, pp. 691-703.

19 L. Sung-Cheol, L. Kark-Bum, "Inward Investment and the Transformation of Regional Economies in China", *DISP*, No. 30, 2002, p. 36.

20 Ibid., p. 39.

21 S. Shunfeng, C. Xiangming, *Housing Investment and Consumption in Urban China*, University of Illinois, Chicago, 2000, p. 2.

22 Only one decade of housing reforms, the share of private capital in Beijing rose to 71%. J. Zhu Jeiming, "Local developmental state and order in China's urban development during transition", *International Journal of Urban and Regional Research*, Vol. 28, No. 2, 2004, p. 425.

23 S. Shunfeng, C. Xiangming, op. cit., p. 4.

polis in developing countries. Namely, apart from spatial compactness and extremely high population densities that place them among typical 'pedestrian cities', Chinese cities have especially monocentric structure. Namely, over 50% of workplaces are concentrated in the city (Table 4). This is what dramatically differentiates Chinese cities from other world metropolis.

Table 4: *Population densities and level of centralisation of work places in the world metropolis in 1995*

CITIES*	Population densities (inhabitants per ha)	% of the employed in central business districts
USA	15	9
West European	55	19
Countries in transition	53	20
rich Asian	150	19
poor Asian	204	17
Latin American	75	29
African	60	15
Middle Eastern	119	13
Chinese	146	51

* Latin American cities include: Kuritriba, Sao Paolo and Bogota; African cities: Dakar, Cape Town, Johanesburg and Harare; and Middle Eastern include: Tel Aviv, Tehran, Rijad, Kairo and Tunis.

Estimated by: J. Kenworthy, F. Laube, *The Millennium City Database For Sustainable Transport*, UITP and ISTP, Brussels/Perth, 2001; J. Kenworthy, C. Townsed, "An International Comparative Perspective on Motorization in Urban China", *IATSS Research*, No. 2, 2002, p. 99-109; J. Kenworthy, G. Hu, „Transport and Urban Form in Chinese Cities", *DISP*, No. 4, 2002, p. 4-14.

However, Chinese cities are characterized by a high rate of so-called non-resident population, who are not covered by the official statistics at all. In larger Chinese cities, non-resident population accounts for at least 25% of the population and in the most prosperous and therefore the most attractive metropolis – in the eyes of the countryside migrants – this figure is higher: in Guangzhou 37% and in the economic miracle of China – sharply growing Shenzhen, non-resident population (766,000) is two times larger than resident population (432,000) and accounts for 64% of the metropolis.[24] This is why the population densities of Chinese cities are incomparably higher than can be estimated with the help of official statistics.

These non-resident citizens of Chinese metropolis can be divided into two groups. Apart from the so called permanent migrants – experts and students that are distributed in a planned and centralized way into leading factories,

24 G. Anthony, X. Xueqiang: "Globalization and the Urban System in China" in: L. Fu-Chen Lo, Y. Yue-man, ed.: *Changing World Cities in Pacific Asia,* United Nations University Press and Chinese University of Hong Kong, Tokyo/New York/Paris, 2002, p. 6.

universities and scientific institutions and who not only have regular residence papers but also numerous privileges in comparison with common urban population – there are also many so-called non-resident migrants. These are village people who decided on their own to move into cities in search of jobs, and that is how they lost all the benefits (social insurance, health insurance, or any chance to solve their housing problem) owned by the so called resident citizens. They represent, in fact, a totally underprivileged caste, unqualified workforce- fuel of the newly formed Chinese global industry that the government is not obliged to take responsibility for and that is not covered by the official statistics.

C. Fan points out that the population of the Chinese metropolis consists of three segments: the elite, the natives and the outsiders.[25] When the analysis includes the outsiders, who represent an extraordinarily large part of the population of prosperous Chinese metropolis (official statistics estimated it was at least 100 million at the beginning of the 1990s), the population densities of Chinese cities are incomparably higher, which can be concluded by the indicators given in the following chart.

Table 5: *Population densities of Chinese cities, Chicago and Paris in 1995*

CITIES	Population (in thousands)	Net urbanised area (km^2)	Population densities (per ha))
Beijing	5,333	367	145
Tianjin	3,500	152	230
Guangzhou	2,022	55	365
Shangai	7,397	258	286
Chicago	7,294	4,694	16
Paris	7,198	904	88

Source: A. Bertaud, S. Malpezzi, *The Spatial Distribution of Population in 35 World Cities: The Role of Markets, Planning and Topography*, The Center for Urban Land Economics Research, University of Wisconsin, 1999, p. 25.

Even more evident indicator of enormous population rates of Chinese cities is obtained if we involve all categories of the population. For instance, the area of Shangai (260 km^2) is 3.5 times smaller than the area of Paris (900 km^2) and even 18 times smaller than the area of Chicago (4,700 km^2), although the population is the same: 7.3 million. So, the average population density of the Chinese metropolis (300 inhabitants/ha) is four times as high as of Paris(88 inhabitants /ha) and 30 times as high as of Chicago (11 inhabitants /ha)!

[25] C. Fan: „The Elite, the Natives, and the Outsiders: Migration and Labor Market Segmentation in Urban China“, *Annals of Association of American Geographers* 1, 2002, pp. 103-124.

3.2. Public transport problems

The next distinct characteristic of Chinese cities is their web of narrow streets. In respect of the total length of public roads per head, Chinese cities are in a terrible state. They are at the very bottom of the ladder of the world metropolis: they have 20 times shorter length of public roads per head than Australian cities, 16 times shorter than American, 8 times than rich Asian and 50% shorter than poor Asian cities.

Table 6: *Total length of public roads, public motorways and number of parking places per 1000 employed people in central business districts of the world metropolis, 1995*

CITIES	Length of urban roads m / per capita	Length of motorways m / 1.000 inhabitants	Parking places per 1.000 employed in CBD*
Australia / N. Zealand	8,1	129	505
USA	6,5	156	555
Western Europe	3,0	82	261
Countries in transition	-	31	75
Rich Asian	2,2	20	105
Poor Asian	0,6	15	127
Latin American	-	3	90
African	-	18	252
Middle Eastern	-	53	532
Chinese	0,4	3	17

* Central business district

Estimated by: J. Kenworthy, C. Townsed, „An International Comparative Perspective on Motorization in Urban China“, IATSS Research, 2, 2002, pp. 99-109; J. Kenworthy, G. Hu, “Transport and Urban Form in Chinese Cities“, DISP, No. 4, 2002, pp. 4-14.

The length of public motorways is naturally even smaller. Chinese cities have 43 times fewer public motorways per head than Australian, 52 times fewer than American, 27 times fewer than Western European, 7 times fewer than rich Asian and 5 times fewer than poor Asian cities. The situation is similar in view of the number of parking places per 1000 employed people in central business districts. This indicator shows this figure is 33 times lower than in America, 15 times lower than in Western Europe and even seven, 5 times lower than in a poor Asian metropolis. Chinese cities are simply absolutely unadjusted to the use of motor vehicles in terms of transport infrastructure, especially cars, which are the biggest ’consumers’ of urban space. In addition to that, the supply of public urban transport in Chinese cities is extremely low, even lower than in American cities. Even in this respect, Chinese cities are at the bottom of the world's ladder with the share of the railway system relatively insignificant: it accounts only for 4% of the total supply of the public transport.

Table 7: *Supply of public transport in 1995*

CITIES	SEATS / km PUBLIC URBAN TRANSPORT-a* per capita	SEATS / km of railway systems PUBLIC URBAN TRANSPORT-a per capita	% share of the number of seats / km of railway systems PUBLIC URBAN TRANSPORT per capita
SAD	1,557	747	48
Western Europe	4,213	2,609	62
Countries in transition	4,170	2,479	59
Rich Asian	4,995	2,282	46
Poor Asian	2,669	402	15
Latin American	4,481	316	7
African	5,450	1,715	31
Middle Eastern	1,245	126	10
Chinese	1,171	45	4

* The railway system of public transport includes: tram, easy railway system, underground and local railway.

Estimated by: J. Kenworthy, F. Laube, *The Millennium City Database For Sustainable Transport*, UITP and ISTP, Brussels/Perth, 2001; J. Kenworthy, C. Townsed, "An International Comparative Perspective on Motorization in Urban China", *IATSS Research*, No. 2, 2002, p. 99-109; J. Kenworthy, G. Hu, "Transport and Urban Form in Chinese Cities", *DISP*, No. 4, 2002, p. 4-14.

The speed of public transport of Chinese cities is conspiciously lower than in other world metropolis. Owing to an extremely low average speed of 14km/h that characterises public transport of these metropolis, their citizens are mainly compelled to walk and use their bicycles.

Table 8: *Average speed of different means of public transport (km/h)*

CITIES	Average speed of different means of public urban transport				Average speed of private vehicles (km/h)	Speed of public transport/ speed of private vehicles (km/h)
	Public urban transport total (km/h)	Bus (km/h)	Under-ground (km/h)	Outer city railway (km/h)		
SAD	33	22	-	45	57	0.58
Western European	26	20	31	49	33	0.79
countries in transition	21	19	29	38	30	0.71
rich Asian	30	16	37	47	29	1.04
poor Asian	18	16	34	33	21	0.84
Latin American	18	18	32	41	30	0.60
African	31	26	-	34	39	0.80
Middle Eastern	21	18	-	37	31	0.68
Chinese	14	12	35	-	19	0.73

Source: the same as for Table 6.

The length of public urban transport lines is (2 m/1.000 citizen and 0,32 m/ha) the smallest in the world. It is similar considering the relation between the legth of public transport routes and the legth of expressways (0.77).

Table 9: *Infrastructure of public urban transport in 1995*

CITIES	Total length of routes planned for public urban tran-sport (m / 1.000 st.)	Total length of routes planned for public urban transport (m / ha)	Ratio of chosen routes for public urban tran-sport / versus expressways
SAD	49	0.81	0.41
Western European	192	9.46	3.12
countries in transition	201	10.67	9.11
rich Asian	53	5.87	3.34
poor Asian	16	2.50	1.33
Latin American	19	1.15	3.36
African	40	2.39	3.16
Middle Eastern	16	2.18	3.54
Chinese	2	0.32	0.77

Source: the same as for Table 6.

The Chinese population , however, use such public transportation. The number of journeys in public transport is relatively high with 375 journeys per head.

Table 10: *Frequency and structure of public urban transport use in 1995*

CITIES	Number of journeys by public urban transport per capita	Number of journeys by railways	Share of railway systems in total number of journeys in public urban transport (%)	Share of public urban transport in total motorisation rate per km (%)
SAD	59	22	37	3
Western European	297	162	55	19
countries in transition	712	409	57	53
rich Asian	430	238	55	46
poor Asian	231	40	17	41
Latin American	265	19	7	48
African	195	37	19	51
Middle Eastern	152	18	12	29
Chinese	375	23	6	55

Source: the same as for Table 6.

In these extremely compact and densely populated cities with huge concentration rate of employees in central business districts characterised by bad supply of extremely slow public transportation, up to 65% journeys are covered by bicycles and walking. Short distances are walked, whereas longer ones are covered by bicycles, which have almost totally undertaken the function the public transport has in the West. Spenser points out: "When one thinks of the public transport of China, he thinks of bicycles".[26] Since 1949, when its modest production started with 14.000 bicycles a year in three small factories, China has become the leading manufacturer in the world.[27] Its share in global production has already reached 55-60%.[28] Until the mid 1990s, the bicycle industry was strongly subsidized[29]. Encouraged by the fall of quantity and quality of public urban bus service and very low income per head,[30] the increase in the number of bicycles has reached such extent that almost every urban citizen owns this means of transport.

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26 A. Spencer, „Decision Time for Transport in the Cities“, *China Review*, No. 10, 1998, p. 1.

27 P. Midgley, *Urban Transport: Issues and Opportunities in Asia*, LEAD Program, Okinawa, 1996, p. 3.

28 W. Hook, „The Sound of One Hand Clapping: China's Bicycle Industry?“, *Sustainable Transport*, No. 14, 2002, p. 20.

29 J. Kenworthy, C. Townsed, „An International Comparative Perspective on Motorization in Urban China“, *IATSS Research*, No. 2, 2002.

30 GDP (gross domestic product) per capita was 1,829 American dollars in Beijing in 1995, 2,474 in Shangai, Guangzhou 2,796 (whereas, for instante, it was 6,991in Kuala Lumpur, in Seul 10,305, 34,395 in New York, 41,305 in Paris, 50,168 in Zurich, 54, 692 in Munich (US dollars).

Table 11: *Participation of different means of urban transport in 1995 (%)*

CITIES	Share in the number of journeys (u %)			Share in means of transport (u %)	
	walking and and bicycle	motorised and private	motorised public urban transport	private	public urban transport
SAD	8	89	3	97	3
Western European	31	50	19	81	19
countries in transition	26	27	47	47	53
rich Asian	28	42	30	54	46
poor Asian	32	36	32	59	41
Latin American	31	35	34	52	48
African	42	32	26	49	51
Middle Eastern	27	56	18	71	29
Chinese	65	16	19	45	55

Source: the same as for Table 7.

Table 12: *The number of inhabitants and bicycles in Chinese cities in 1983, 1990 and 1994*

CITIES	Population (in thousands)		Number of bicycles (in thousands)			Number of bicycles (per 1,000 inhabitants)	
	1990	1994	1983	1990	1994	1990	1994
Beijing	7,000	7,260	4,290	6,273	7,885	896	1,086
Hangzhou	1,340	1,440	629	834	1,273	622	884

Source: the same as for Table 7.

The motorisation and mobility rate in Chinese cities is extremely low: there are only 26 automobiles per 1,000 inhabitants and they drive only 800 km per capita. (To compare, the motorisation rate in American cities reached 600 automobiles per 1,000 people in 1995 and the mobility rate – over 18,000 driving kilometres per capita).

Table 13: *Mobilisation and motorisation rate in the world metropolis, 1995*

CITIES	Motorisation rate		Mobilisation rate pkm / per capita	
	number of automobiles /1,000 inhabitants.	number of motorcycles /1,000 inhabitants	automobile	motocycle
SAD	587	13	18,155	45
Western European	414	32	6,202	119
countries in transition	332	21	2,907	19
rich Asian	210	88	3,614	357
poor Asian	105	127	1,855	684
Latin American	202	14	2,862	104
African	135	5	2,652	57
Middle Eastern	134	19	3,262	129
Chinese	26	55	814	289

Source: the same as for Table 7.

W. Hook correctly emphasises that up until 1990s, despite a huge number of inhabitants, China was one of rare countries that environmentalists concerned with public transport polution did not have to worry about at all.[31] With industrial plants located in central districts and extremely high population densities, Chinese cities mostly use solid fuel [32] , so they are characterised by a very high concentration of the local air pollutors per hectare or urban space – even one of the biggest in the world (the emission of CO, S02, VHC, NOx is 11,920 kg/ha).

31 W. Hook, "Bicycle Use Plunges (The Struggle for Sustainability in China's Cities)", *Sustainable Transport*, No. 10, 1999, p. 6.

32 Ibid.

Table 14: *Indicators of sustainable development of public transport in 1995*

<table>
<tr><th rowspan="3">CITIES</th><th colspan="4">Energy use</th><th colspan="3">Emission of air pollution (CO, SO_2, VHC, NO_x)</th><th rowspan="3">Number of the killed people per 100,000 inhabitants</th></tr>
<tr><th colspan="2">MJ / per capita</th><th colspan="2">MJ / pkm</th><th rowspan="2">kg / per capita</th><th rowspan="2">kg / ha</th><th rowspan="2">Total emisssion related to mobility rate</th></tr>
<tr><th>private</th><th>public urban transport</th><th>private</th><th>public urban transport</th></tr>
<tr><td>USA</td><td>60,034</td><td>809</td><td>3.25</td><td>2.13</td><td>265</td><td>3,563</td><td>0.020</td><td>12.7 (7.0)</td></tr>
<tr><td>Western European</td><td>15,675</td><td>1,118</td><td>2.49</td><td>0.83</td><td>98</td><td>5,304</td><td>0.020</td><td>7.1 (9.6)</td></tr>
<tr><td>Countries in transition</td><td>6,661</td><td>1,242</td><td>2.35</td><td>0.40</td><td>88</td><td>4,543</td><td>0.037</td><td>10.8 (19.6)</td></tr>
<tr><td>Rich Asian</td><td>9,556</td><td>1,423</td><td>2.33</td><td>0.48</td><td>37</td><td>5,722</td><td>0.012</td><td>8.0 (10.8)</td></tr>
<tr><td>Poor Asian</td><td>5,523</td><td>1,112</td><td>1.78</td><td>0.64</td><td>77</td><td>13,506</td><td>0.037</td><td>15.2 (37.3)</td></tr>
<tr><td>Latin American</td><td>7,283</td><td>2,158</td><td>2.27</td><td>0.76</td><td>119</td><td>7,362</td><td>0.056</td><td>27.6 (47.3)</td></tr>
<tr><td>African</td><td>6,184</td><td>1,522</td><td>1.86</td><td>0.51</td><td>137</td><td>5,330</td><td>0.076</td><td>18.0(30.4)</td></tr>
<tr><td>Middle Eastern</td><td>10,573</td><td>599</td><td>2.56</td><td>0.67</td><td>147</td><td>12,71</td><td>0.060</td><td>11.3(29.1)</td></tr>
<tr><td>Chinese</td><td>2,498</td><td>419</td><td>1.69</td><td>0.28</td><td>86</td><td>11,20</td><td>0.083</td><td>8.6 (30.0)</td></tr>
</table>

Source: the same as for chart 8.

Nevertheless, far more important indicators for the concept of sustainable development are energy consumption and emission of carbon dioxide per head, and they give a precise picture of the exploitation of unrenewable energetic resources and global warming. In Chinese cities, due to insignificant use of automobiles, energy consumption and emission of carbon dioxide in transportation is the lowest in the world. That is why the news on Chinese government announcement that the automobile will become the main means of transport in these compact, extremely densely populated pedestrian cities was accepted with shock. The newest slogan in China is 'one car per household'.

4. Developmental controversies

At the beginning of the 1990s, the automobile industry was decreed the main impulse of economic development. At the same time, a powerful web of intercity motorways was decided to be built, with 30,000 kilometers that would connect 95 Chinese cities.[33]

A large budget has of course been allocated to the network of urban motorways lately.

Table 15: *Amounts allotted to urban transport infrastructure of Beijing and other metropolis in 1990*

CITIES	Allowances for roads from 1,000 US dollars of GRP*	Allowances for roads per head US dollars/head
Beijing	45.9	61
American	9.8	264
Australian	7.8	142
Canadian	6.7	150
European	4.3	135
rich Asian	4.1	88
poor Asian	14.7	39

* GRP – gross regional product

Estimated by: L. Kenworthy et. al., *An International Sourcebook of Automobile Dependency in Cities*, Un. Press of Colorado, Boulder, 1999; P. Newman, J. Kenworthy, *Cities and Automobile Dependency*, Gower, London,1991

Table 16: *Investments in public urban transport and public roads in 1995 (% of GRP)*

CITIES	% of GRP invested in public urban transport	% GRP invested in public roads
USA	0.18	0.86
Western European	0.41	0.70
countries in transition	0.50	1.02
rich Asian	0.61	0.84
poor Asian	0.65	1.28
Latin American	0.42	0.11
African	0.35	0.54
Middle Eastern	0.61	1.05
Chinese	0.86	3.17

Source: the same as for Table 7.

33 The World Bank Group: *Highways for China*, World Bank, Washington DC., 1997, p. 1.

Chinese municipalities allot three to six times larger part of gross regional product than the other world metropolis (3,2 % of GRP) for development of urban motorways. The experience of large Chinese cities that have built urban motorways, however, clearly shows that this strategy does not lead to the reduction of traffic jams. The model of Chinese metropolis is therefore more conspicuous because the motorization rate of the population is extremely low.

An orbital motorway has been built in Guangzhou, as well as an inside ring of 27 km (76% of which has an elevated route) and many modern crossroads. Though the rate of motorization is low (only one million motor vehicles), the average speed on the main directions of north – south and east – west is only 18-21 km/h. In Beijing, which has 1.2 million of motor vehicles, two circle roads have been built and the third one was recently completed, with 19 viaducts and 202 overpasses. However, the maximum speed on the main roads is only 13-19 km/h in traffic jams. In Shangai in the period from 1991-1997 the length of transport web has increased by 42% and even 400 streets are one-way. Total number of motor vehicles is 1.3 million. The average speed in the inner ring is only 16 km/ h in traffic jams. In Shenzhen, 139 kilometers of motorways have been built. Although there are only 250,000 motor vehicles the speed on the main roads in traffic jams is only 20 km/h. [34]

This is why it is not surprising that Vu Yang (from the Chinese Ministry Construction) and Lee Kayoing (from the Chinese Academy for urban planning and design) conclude: "Although local authorities in most Chinese metropolis still believe that traffic jams can be eliminated by the construction of urban roads..., there is no a single study that can confirm it. On the contrary, more congested transportation caused by the construction of urban motorways only influences further emission of air pollution and new traffic jams. In fact, there are no direct links between the new transport infrastructure, decline in the pollution and environmental protection."[35]

This decision that 'pedestrian' Chinese cities with very high population densities, over 50% employed in central business districts and the lowest rate of motorization of the total world population turn into automobile cities overnight is at least unusual. Such strategy of total motorization process, characteristic for American metropolis with population densities even 30 times lower than in American cities, is strongly supported and encouraged by the World Bank through granting large loans for the construction of urban motorways. This is what strongly differentiates the actual politics of the World Bank on sustainable urban development and strategy of urban transport from its newest official stands and studies, in which it has nominally supported the concept of sustainable development. In respect of planning, organization and public transport

[34] M. Dinesh, T. Geetam, „Sustainable Transport System: Linkages Between Environmental Issues, Public Transport, Non-Motorised Transport and Safety", *EPW*, No. 25, 1999, p. 7, 8.

[35] Y. Wu, Y. X. Li, Targeting Sustainable Development for Urban Transport, CICED, Beijing, 1999, p. 8.

management, there is probably no more conspicuous example today of the total absence of coordinated development of transport system and metropolis, its physical components and other functions[36] – than Chinese metropolis.

4.1. Global effects of proautomobile transportation strategy

Unfortunately, the proautomobile transportation strategy of highly populated China will have disastrous effect not only on Chinese metropolis but also infinitely dangerous global effects, both in terms of exploitation of the unrenewable resources, but also in terms of the emission of carbon dioxide, which leads to global warming. This decision has naturally caused stormy reactions in the scientific and professional circles. According to the newest research of the reputed centre for oil research King Hubert from Colorado, it will lead to a dramatic global increase in energy consumption and dramatic changes on the oil market. China has nowadays 1.2 million inhabitants. The realization of the 'one household, one car' strategy would mean (if we assume there are three members in one household on average) 400.000 automobiles, which is twice more than there are motor vehicles in the USA today.

The situation is, of course, additionally complicated by the fact that China does not have more serious oil resources, as it used to be believed. The exploitation process of the first significant oil source – Daging, discovered in 1959 in the northeast of the country, did not start until 1969. Until 1972 (owing to extremely bad consumption), it was sufficient for the needs of the country and in the period from 1973-1993 some amount of oil was exported. Pressed by increasing needs and spare oil sources, immediately after Mao Tse-tung's death, China invited western experts in 1976 to investigate South Chinese See by the most modern seismic instruments. At the beginning of the 1980s, they managed to discover only a few commercial and no gigantic fields (with the capacity of 500 MMB).

What has to be taken into account is the sudden increase in oil consumption in this huge country. Whereas the oil consumption in 1968 was only 0,3 MMB/D,[37] up to 1994 it went up to 2,9 MMB/D; after Hong Kong joined China it rose by additional 5% and in 2000 it reached 4,4 MMB/D. It is estimated that total oil consumption will reach 6,7 MMB/D, whereas the production in 2015 will be 2,2 times lower and will be only 3,0 MMB/D. Nowadays China, fully aware it is not one of the world oil power, is negotiating with Kazakhstan the construction of oil platforms from the Caspian Sea and import of oil from the Russian, far east Sakhalin Islands of the Ohot Sea. Briefly, according to the expertise analysis, China will have to import a lot of raw oil to achieve its ambitious plans".[38]

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[36] V. Vuchic, *Transportation for Livable Cities*, Center for Urban Policy Research, Rutgers, New Jersey, 2000, pp. 82-87.

[37] Million of barrels per day

[38] L. F. Ivanhoe, *Petroleum Positions of Ex-USSR and China*, M. King Hubbert Center for Petroleum Studies, Colorado, 1998, p. 4.

Having the conditions of extraordinary space compactness and huge population densities (that arose from the decades of stagnation of the housing industry), a huge involvement of bicycles and walking, as well as a serious lack of domestic energetic sources, Ministry of Industry in China has still decided to start a sudden development of automobile industry and they say "the car industry is an unavoidable consequence of the economic growth, which has already showed itself through an example of the developed countries. Even in Japan, with the high population figures and short supply of land, there was no limit in implementation of the 'one car per a household' strategy."[39] It is the model of Japan that represents a very bad argumentation for the proautomobile transport strategy. This Asian tiger is known because it has managed to achieve extraordinary economic success in last 30 years combining the measures of limiting increases in motorization and using cars at home... with a strong export orientation of car production ..and, avoiding to trap its working class in too strong dependence on expensive cars, it has managed to sustain the workforce costs low... spending only 10% of GNP on transport, unlike the USA that spend approximately 20% on it.[40]

It looks as if even the Chinese political top authorities are divided over the issue. The strongest opposition comes exactly from the Ministry of Construction, where they raise a question over 'how can Chinese cities put up with so many automobiles if even the existing problems in urban transportation are so serious?'[41] However, the ambitious idea of the construction of urban motorways in Chinese cities is in obvious collision with the existing urban standards of the Ministry of Construction.

Table 17: *Planning standards of the purpose of land in Chinese cities*

Purpose of urban land	Purpose of land (%)	Planning standards (m^2 per capita)
housing	20-32	18-28
industrial	15-25	10-25
urban roads and squares	8-15	7-15
green space	8-15	>9

Source: Ministry of Construction: *State Standard of People's Republic of China. Urban Land-Use Classification and Planning Land-Use Standard*, Beijing, 1991; J. Kenworthy, G. Hu, "Transport and Urban Form in Chinese Cities", *DISP*, No. 4, 2002, p. 10.

39 J. Kenworthy, G Hu, "Transport and Urban Form in Chinese Cities", *DISP*, No 4, 2002, p.11.

40 W. Hook, „Does it Make Sense for China to Motorize?" *Sustainable Transport*, Fall, 2002, p. 19.

41 J. Kenworthy, G. Hu, ibid.

The latest Chinese transport strategy has naturally caused stormy reactions in the academic circles around the world. Nowadays transportation participates with its 20% in the total yearly emission of 6 billion tons of carbon dioxide, which is a side effect of people's activities and leads to dramatic global climate changes. With the prediction that in the year 2030 China will have 828 million inhabitants in cities, the Institute of Worldwatch in Washington points out that if the Chinese used automobiles as much as the Americans, "the emission of carbon dioxide in urban transport of Chinese metropolis would amount to over one billion tons, which is the quantity all means of transport together produce in the world today!"[42]

W. Hook and J. Ernst specify: "Owing to truly amazing number of inhabitants of China, even small changes in their motorisation rate is enough to make all predictions of oil demand and emission of GHG (Greenhouse Gases[43]) totally irrelevant and change them totally."[44] V. Vučić warns us in his latest book: "Lack of understanding of the main characteristics of urban transportation and its long term implications lead to serious problems in the countries ... such as China, where the car industry is becoming the main element of industrial and economic growth."[45] O.Tunali says: "If China manages to achieve its dream about one car for each family, the emission of carbon dioxide will reach the level where it will annul all reductions in the world",[46] and W. Hook and M. Replogle say that "the implications concerning global warming and energy consumption are really worrying, even horrifying".[47] J. Kenworthy and J. Hoo conclude: "It will be the disaster not only for China but also for the whole world if China devastates its physical and social environment in the same way as the majority of the developed world has done so far by their extreme dependence on automobiles."[48]

42 Worldwatch Institute: *State of the World, 1999*, W. W. Norton and Company, Washington D.C., 1999, p. 4.

43 Carbon dioxide, meta oxide and nitrous oxide.

44 W. Hook, J. Ernst, „Bicycle Use Plunges: The Struggle for Sustainability in China's Cities", *Sustainable Transport*, No. 10, 1999, p. 17.

45 V. Vuchic, *Transportation for Livable Cities*, Center for Urban Policy Research, Rutgers, New Jersey, 2000, p. 330.

46 O. Tunali, "Quest is on to beat Traffic Logjam", *The West Australian Earth 2000*, 1996, p. 4, 5.

47 W. Hook, M. Replogle, „Motorization and Non-motorized Transport in Asia", *Land Use Policy,* Vol. 13, No. 1, 1996, pp. 69-84.

48 J. Kenworthy, G. Hu, "Transport and Urban Form in Chinese Cities", *DISP*, No. 4, 2002, p. 4.

5. Conclusion

The whole previously presented analysis leads to a conclusion that the pro-automobile Chinese strategy, strongly encouraged by the World Bank loans for urban motorways, represents a true challenge for transport and urban planners. Whether Chinese cities will build suburbs oriented to public urban transport or suburbs dependant on automobiles in the following decades, depends on the extent to which they will manage to preserve urban pedestrian and bicycle space, which have the biggest participation in urban transportation and also on the extent to which they will manage to provide significantly more balanced investment rate in the existing unreliable and crowded public urban transport . The only way Chinese cities can protect themselves in an efficient manner from the exaggerated car addictiveness and therefore achieve fast sustainable economic growth and, globally speaking, even more importantly, avoid devastation of unrenewable resources and prevent worrying increase in the emission of carbon dioxide that lead to global warming is to build modern systems of public transport.

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SLOVENIAN BANKING UNTIL THE END OF THE SECOND WORLD WAR

Abstract: *In the article, the author deals with Slovenian banking – savings banks, credit cooperatives and joint-stock companies – until the end of the Second World War. In the first part he analyse the institutional development of the Slovenian banking in order of their emergence till the First World War. Then he exposes the condition for banking business during the prosperous 1920s and the critical crisis times of 1930s and also outlining the reconstruction/rehabilitation of the banking system after the great depression in the second half of thirties. This is followed by an analysis of the banking market structure and the long term performance of monetary operations by the Slovenians banks during that period.*

Key words: *banking, savings banks, credit cooperatives, joint-stock companies, capital, Slovenia*

1. Introduction

The tradition of the Slovenian banking, monetary matters to be precise, has had a very long tradition. It all started with the savings banks in 1820, the credit co-operatives followed, and finally as a functional completion, the banking stock corporations were formed. So the saving banks and the credit co-operatives culminated before the World War l, and managed to preserve the achieved level during the First and the Second World War On the other hand the banking was only given an impetus before the World War and was in full swing during the World War ll.

Before the Second World War, the functional supplementary system of networks of financial institutions was formed. The functional division also defined the target audience of a certain group of financial institutions. If we schematically generalise it, we can maintain that credit co-operatives more or less covered the countryside, they satisfied the needs of the rural population. They were the largest deposit collectors among the Slovenian population. The banks and regulative savings banks were controlling cities and their influential regions. The vicinity of the seats of banks and savings banks, as well as targeting the same population, even though with different economic roles, also resulted in mutual connection of these two different groups of financial institutions. However the banks more or less covered the entrepreneurial sectors, whereas the regulative savings banks focused their activities besides crediting of founders (cities, municipality, district), mainly on the small business representatives in towns.

There is a close connection between the economic development and the development standing of the financial institutions. It is important to make the point that Slovenian economic development showed a growth from the 1890s of the 19th century and it was strongly connected to the development of the financial institutions that were developing in the eighties and nineties of the 19th century. Typical of this period is the establishment of a large number of the savings banks, as well as the exceptional rapid growth of the credit co-operatives. In the following years, these institutions raised considerable resources that could be offered to the borrowers; the fact, that the long-term mortgage loans had prevailed, reveals the structure of those who applied for the credits – the representatives of the small business economy prevailed. The process of the Slovenian economic growth was conditioned by the general Austrian business outlook, but the Slovenian financial institutions were important for giving a boots to development. This was even more distinctive in the twentieth, as a large number of new Slovenian banks became operational. Their target market was the entrepreneurial sector. With a numerous short-term loans, they were – contrary to the regulative savings banks and credit co-operatives – not giving mortgage loans- , or with direct participation in business, they stimulated the development and the growth of the enterprises in Slovenia.

2. Savings banks

The first step towards the organised savings- and banking business operations, was the establishment of "Kranjska hranilnica" (savings bank) in 1820 and was not a departure only in Slovenia, but also in Austria; this was the second saving bank of this sort in Austria.[1] Its basic task was to raise free financial means of the population and various institutions. Due to the accelerated saving, and accumulation of means, it was possible to offer loans at a low interest rate, or at a lower rate, that the prevailing one was. Besides the economic role, the savings banks played an important social role, like supporting cultural, social and economic institutions.[2] The savings banks were formed by the political units: municipalities, districts, provinces, in order to assure other credit sources for realising their projects, for which the simultaneous means were not sufficient.

1 Zgodovinski arhiv Ljubljana: *Zbirka denarnih zavodov*, fasc. 15.

2 J. Gogala, "Naša denarna organizacija", *Trgovski tovariš*, Vol. 2, 1930, p. 28.

Local authorities realised during the decades, that the savings banks can also be very useful for their economy. This was, together with the increasing needs the reason that the number of savings banks grew in the seventieth of the 19th century. The Styria with its municipalities, towns and districts had a leading part in the formation of savings banks. The towns, that were more developed, and had a better differential economic structure and a stronger hinterland, enabled better starting position for their savings banks. They offered more reliable securities for the deposits, what is one of the most important establishment commitments of the savings banks. So it is not surprising, that "Kranjska hranilnica" was financially the strongest, and followed closely by the "Mestna hranilnica Ljubljanska". "Mariborska hranilnica" was important as well. The other savings banks were actually very small, and their influence in Slovenia only had a local meaning. Among the important savings banks, the savings banks from Ptuj and Celje are to be mentioned. The first three savings banks raised almost two thirds of all bank deposits (savings) in the Slovenian savings banks. If we consider the savings banks from Ptuj and Celje as well, the share increases to three fourths.[3]

When speaking of Slovenian savings banks in the period after the World War l, another point of view has is very important. The Slovenian savings banks dealt with heavy investments in securities; namely the treasury bonds and other securities that were considered as very reliable investments. Before the World War l, the savings banks had about one fifth of their assets invested into this specific account heading.[4] Of course there were differences among the savings banks: "Kranjska hranilnica" dominated; it held one third of its assets in the government securities.[5] During the World War l, as the Austria issued several series of war bonds, in order to cover the costs of the war, the share of securities in the balance sheet total in Slovenian savings banks increased to one half.[6]

The period before the World War l may also be defined as the peak of the development of the Slovenian savings banks. The period after the World War l resulted in entirely different guidelines. The meaning and the relative part of the regulative savings banks among the Slovenian financial institutions, was due to the increasing number of the banks that were mostly targeting the entrepreneurial sector decreasing rapidly. This is clearly evident from the volume of deposits that they were running. The volume of the deposits that were put for

3 D. Potočnik, "Regulativne hranilnice v letih 1932-1932", *Trgovski tovariš*, Vol. 11-12, 1936, p. 190.

4 D. Potočnik, "Regulativne hranilnice v letih 1930-1932", *Trgovski tovariš*, Vol. 7-8, 1933, p. 110.

5 T. Hočevar, "Začetki slovenskega poslovnega bančništva 1900-1912", *Bančni vestnik*, Vol. 12, 1983, p. 340.

6 D. Potočnik, *Regulativne hranilnice v letih 1930-1932*, p. 110.

safekeeping with the Slovenian savings banks represented during the wartime period only half of the pre-war value. There were only few savings banks, that reached (Mestna hranilnica ljubljanska), or even exceeded the pre-war level, (Občinski hranilnici in Krško and Kostanjevica and Mestna hranilnica Črnomelj). There were all together 28 savings banks between the two wars; The savings banks starting modernising their operations, by extending them to the banking sphere of activity. This was not a one-off process, and was far from being constant. Some of the savings banks, mostly the larger ones, like Hranilnica dravske banovine, Mestna hranilnica ljubljanska and Mariborska mestna hranilnica, could already be compared to the banks, whereas this was far from being the fact for the smaller ones. The field of operations after the World War l switched from the mortgages, effective portfolio and local authority loans to the current accounts, than the mortgages loans followed. In the thirties the share of the loans, that were granted to the founders, municipalities and districts, increased. So these political units were replacing the population and the economic subjects at hiring loans. A major obstacle in approaching the banking operations, were unenforceable claims from war loans that accumulated as a result of the Austrian patriotism during the World War l. And the new state showed no understanding for these claims. Finally the savings banks had to write them off from their own funds; the write off continued till 1930s, when the savings banks, due to the crisis faced the same difficulties, as the other financial institutions did.[7]

3. Credit Co-operatives

The foundation of the credit co-operatives followed the savings banks. The credit co-operatives contributed substantially to the lower restraint of the financial sources in Slovenian territory. The credit co-operatives represented an important innovation in economic activities of the prevailing part of the Slovenian population, under the circumstances of undeveloped network of banking and other financial institutions. That was an innovation, because it functioned as the financial agent for the needs of small business economy sector. The Slovenian credit co-operatives made substantial contribution to the lowering of interest rate, by means of the financial operations and instruments that were mostly unknown to the majority of Slovene people.[8]

The credit co-operatives managed to raise a lot of minor savings deposits and to place them between the peasants and craftsmen, by offering them loans at a reasonable price. With the credit co-operatives the loans were cheaper, for

7 D. Potočnik, op. cit., p. 190; *Slovenske samoupravne hranilnice v letih 1918-1938*, Ljubljana, 1938

8 T. Hočevar, "Slovensko poslovno bančništvo kot inovacijski dejavnik, 1900-1930", *Zgodovina denarstva in bančništva na Slovenskem*, Ljubljana, 1987, p. 66.

two basic principles: self-help and mutuality that did not allow a big difference between the active and the passive interest rate. The margin with the loans was such that it enabled to cover the overhead costs that were in small institutions, like the credit co-operatives, usually low. Naturally the credit co-operatives could have carried out their projects only by a careful and reliable operation. Beside the mentioned social-economic elements, the national elements have to be taken into consideration at the early stage of the Slovenian credit co-operatives. The financial institutions, that had already been operational, were mainly not owed by the Slovenians, so the credit co-operatives also contributed to the attainment of their financial independence. The credit co-operatives reached the full swing among Slovenians; we could better describe it as movement.

The development of the credit co-operatives can be divided into two periods – the national and the social one. The first period could be regarded as national because those co-operatives tried to achieve the economic-financial independence of Slovene population from the German capital, by establishing the credit-co-operatives. It is therefore not surprising, that the co-operative initiative was the strongest in those regions, in which the nationality was mostly threatened, like Styria and Carinthia. The initiative for the formation of co-operatives started to develop in Carinthia in the late ninetieth, when the social-economic moments came to the front. The Raiffeisen co-operative structure seemed to suit these requirements mostly.

Styria was the cradle of the credit co-operatives in Slovenia. The first credit co-operatives were established in the seventieth of the 20th century, especially after the Co-operative Act passed in 1873.[9] The first Slovenian co-operatives, the so called loan banks, were founded on the basis of Schulze-Delitsche principles that with the high shares enabled the foundations of solid institutions that could compete with the Germans. After 1880, the altered form of these principles was implemented in Slovenia, with the distribution on main and voting shares. This modification was initiated by Mihael Vosnjak. The role and the importance of Mihael Vošnjak,is not important only because it solved the system of organisation, he also tried to connect the Slovenian co-operatives. At the instigation of Mihael Vošnjak, "Zveza slovenskih posojilnic" (Union of Slovenian loan banks), the first Slovenian and the third Austrian co-operative Union, was formed in Celje in 1883. "Zveza slovenskih posojilnic" connected the credit co-operatives, brought into line their operations, and encouraged the foundation of new credit co-operatives.[10] With the formation of "Zveza slovenskih posojilnic", that was 1905 transformed into "Zadružna zveza Celje", (the co- operative qualified union), the period of unorganised and idealistic foundations of credit co-operatives was over. The network of

9 D. Schauer, *Prva doba našega zadružništva*, Ljubljana, 1945, p. 47; Anton Kralj, "Iz zgodovine slovenskega zadružništva", Slovenci v desetletju 1918-1928, Ljubljana, 1928, p. 538.

10 Ibid., pp. 53-62.

credit co-operatives was founded systematically. This union was a success – ten years later 61 loan banks were operational: 21 loan banks were located in Lower Styria, 17 in Carinthia, 14 in Carniola and 9 in Primorje. There were only two districts without a Slovenian loan bank in Styria, 4 in Carinthia and 20 in Carniola. The co-operative initiative was still more or less present in Styria.[11] With the development of the branch system of the credit co-operatives on Slovenian territory, the co-operative movement started increasing and the business operations were brought into line by means of revisions. These arrangements must have been made so that the efficiency of mutual financing of the credit co-operatives could be estimated.

In the middle of 1890s the second period of Slovenian credit co-operatives begun. Celje no longer dominated. The initiative was moving from Styria to Carniola. This process coincided with the separation of different political movements in Slovenia. The credit co-operatives and economy respectively became an important item in political conflicts between the Catholics and liberals. The Catholics turned out to be more successful, they engaged the clergy at the countryside for extending co-operative movement. In the second period the Raiffeisen principle that was brought to Slovenia by Janez Evangelist Krek was put into effect. Under his influence the co-operative movement became very important in retrieving the social economic situation, what is evident from the discussions and resolutions held at catholic meetings.

The tendency of establishments of small credit co-operatives, also known as rajfaznovka, was under the influence of the Catholics extremely productive; Between 1892 and 1905 no less than 481 co-operatives were founded. Due to extremely centralist oriented Raiffeisen system, the new Slovenian co-operative Union (slovenska zadružna zveza) was formed already in 1895. In Ljubljana, Zveza kranjskih posojilnic was founded; it was later reorganised in Zadružna Zveza v Ljubljani (Co-operative Union) and conducted business until the liquidation that took place after the World War Second. During the World War First, the volume of business of Zadružna zveza slightly decreased. The reason was in the short-lived split among its members, which is typical example of the political influence on the co-operatives. The political split in the liberal party was followed by the split among credit co-operatives. Under the leadership of Evgen Lampe, 129 co-operatives of Carniola, seceded from Krekova zadružna zveza and founded "Zadružna cetrala". However this Union, founded due to political motives was not to live long. It collapsed as the Yugoslavia was formed, and its members returned to lap of Zadružna zveza remorsefully.[12]

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11 A. Kralj, "Iz zgodovine slovenskega zadružništva", *Slovenci v desetletju 1918-1928*, Ljubljana, 1928, p. 538.

12 W. Lukan, "The Second Phase of Slovene Cooperativism (1894-1918), Slovene Studies", *Journal of the Society for Slovene Studies*, Vol. 1-2, 1989, pp. 83-96.

This was not the end of the split of the Slovenian co-operatives. In 1907 "Zveza slovenskih zadrug" was founded in Ljubljana. This was the third audit union and was established by separation of the co-operatives of Carniola and Primorje from Celjska zadružna zveza. The reason for the exclusion was of political nature, the main initiators were the liberal oriented politicians and economists, who wanted to establish their own economic organisation. This reorganisation was executed on provincial basis; all co-operatives of Styria and Carinthia remained a part of "Celjska zveza", whereas the others were affiliated to "Zveza slovenskih zadrug".[13]

After the end of the World War First and with the formation of Yugoslavia, the position, purpose and the role of credit co-operatives remained unchanged. The number of co-operative units was in Slovenia due to the new borders slightly reduced. In this time the oldest Slovenian co-operative union, "Zadružna zveza Celje", was forced to fold up and its members mostly joined "Ljubljanska zveza slovenskih zadrug". The conditions remained unchanged after the World War l. "Zadružna zveza" from Ljubljana that was supported by the Catholics still strongly dominated over its competitors, in a number of members as well as in financial power.

The credit co-operatives rapidly renewed their operations after the First World War, achieved the pre-war level in first half of twentieth and topped it in the second half. In this way they again consolidated their lead among the Slovenian financial institutions in raising savings deposits. This was enabled by the branch network of almost 500 credit co-operatives; about 15% of the populations were members of the credit co-operatives. In the thirtieth, the tendency altered entirely. During the Great Depression, the volume of turnover strongly decreased, it was 40 % lower than before the trade depression; the drop in the deposits was due to the freeze and stops of payments a little lower.[14]

4. Joint-stock companies

Compared to the other financial institutions, the Slovenian banking joint-stock companies started developing rather late. This certainly does not mean that there were no such a banks in Slovenia. Smaller joint stock companies operated in Maribor and Prekmurje, the region of Eastern Slovenia, but their activities never exceeded the local level. Beside the mentioned companies the branches of the foreign banks were conducting business in Slovenian territory. On the brink of the century the savings and loan banks covered a large part of

[13] F. Trček, "Zveza slovenskih zadrug v Ljubljani ob 30 letnici", *Zadružni zbornik*, Ljubljana, 1937, pp. 89-92.

[14] V. Valenčič, "Pregled našega zadružnega gibanja in stanja", *Spominski zbornik Slovenije*, Ljubljana, 1939, pp. 457-464.

the Slovenian territory. They concerned themselves with small business enterprises. However their activity could not sufficiently comply with a request of the developing national enterprise that needed a strong universal bank.

In the second half of the 19th century, some attempts were made to create a Slovenian joint-stock bank. However due to the cruel reality and general situation of the economy, a shortage of capital and a lack of experienced individuals in banking all wishes and hopes went up in smoke. At the end of the 19th century, the conditions improved. The Slovenes however did not have enough capital to cover the foreseen sum of the nominal capital. Another problem was the scarceness of trained staff in banking operations. Therefore they were forced, when establishing the "Ljubljanska kreditna banka", to entirely rely on Czech hinterland, and there is nothing surprising in the fact, that half of the nominal capital was paid up by the Czechs, that is by "Živnostenska banka", and its Wiener branch respectively. The Czechs were entitled to appoint the executive staff; besides they also employed their own clerks. The Slovenes, both, individuals and credit co-operatives registered the second half of the nominal capital, after the promotional action had been conducted.

"Ljubljanska kreditna banka" was important because it linked the domestic and international capital market; it had ambitious plans and was successful in conducting business. As the volume of business extended, the banking nominal capital also increased and the sphere of banking business extended. By the beginning of the first World War, several branches were founded in a number of Slovenian cities – Celovec, Trieste, Gorica and Celje. Their task was to support the Slovenian economy. Even more – With the establishment of branches in Split and Sarajevo, the commercial relations were intensified and the Slovenian economy penetrated the Dalmatian and Bosnian markets.

"Ljubjanska kreditna banka" became an important respected financial institution, and was the first bank, that paved the way to other banks. Later on, in 1905 "Jadranska banka" in Trieste was established together with the Croatian capital; At the end of the first decade of the 20th century, in 1910, "Kranjska deželna banka" in Ljubljana became operational, that gave priority to crediting municipalities and granting mortgage loans. Six years later, in 1916, "Ilirska banka" was established in Ljubljana – it was a general type of bank.[15]

Despite of the fact, that the war and its consequences reduced the financial power and the volume of business of Slovenian banks – joint-stock companies, the new borders enabled, (as Slovenia became a part of Yugoslavia), that the Slovenian financial institutions could conduct business more active. The formation of Yugoslavia stimulated with the new markets, the expansion of national banking, and of the national industry. Besides the new markets, the expansive financial policy contributed to faster development as well. The rapid development of foundation of banks followed. These banks financially

[15] T. Hočevar, *Začetki slovenskega poslovnega bančništva 1900-1912*, p. 342.

supported the development of the Slovenian industry. Along with the rapid establishment of banks, the industry also developed faster.[16]

Between the Wars, "Ljubljanska kreditna banka" maintained its business without any changes. "Ilirska banka" renamed itself in "Slovenska eskomptna banka" and it later on merged with "Trgovska banka". "Kranjska deželna banka" was converted into "Hipotekarna banka jugoslovanskih hranilnic". The following banks were founded as joint-stock companies: "Zadružna gospodarska banka", "Kreditni zavod za trgovino in industrijo", Merkantilna, Obrtna, Slovenska, Zadružna in Prometna banka. "Celjska posojilnica" was converted from credit co-operative into a joint-stock bank. In Prekmurje, "Prekmurska banka and Dolnjelendavska hranilnica" (savings banks) proceeded their operations, and "Kreditna banka" from Murska Sobota joined them in thirties. In Ljubljana the number of branches of non-Slovenian banks increased.

We will describe the influence and the range of Slovenian banks on the example of the three largest Slovenian banks. The Slovenian bank capital represented 14% of the capital in Yugoslavia and it was centralised in three banks: Ljubljanska kredina banka, Kreditni zavod za trgovino in industrijo and Zadružna gospodarska banka. "Ljubljanska kreditna banka" and "Zadružna gospodarska banka" were universal banks, while "Kreditni zavod" was a specialised bank institution that mainly had dealings with the companies and much less with the inhabitants. These three banks also had different owners. "Zadružna gospodarska banka" was entirely in Slovenian hands, it was founded in 1920 by credit co-operatives of the catholic oriented "Zadružna zveza" (Union), that was in possession of three fourth of the shares, the rest of shares belonged to the individuals. "Ljubljanska kreditna banka" and "Kreditni zavod" were mixed companies, that later passed over to Slovenian hands.

Typical for the operations was their large and extensive investment activities.

"Ljubljanska kreditna banka" had a prevailing role in the expansion of the bank group, "Kreditni zavod" followed, while "Zadružna gospodarska banka" was much more unassuming. The three banks have, like other companies, tried to make profit in other Yugoslavian republics. They established their branches there; however their main activity was still concentrated in Slovenia.

The analysis of investment structure reveals that the investment policy was balanced; the banks tried to cover various branches of economy: industry, building industry, domestic and foreign trade as well as specialised banking institutions. They also extended their operations on other, non- banking financial services. "Ljubljanska kreditna banka" and "Kreditni zavod" founded the insurance companies, the first one "Slavija", was located in Ljubljana, and the second one, "Vardar", had its seat in Belgrade. "Zadružna gospodarska banka", the youngest regarding the capital and very careful and mistrustful

[16] T. Hočevar, "Slovensko poslovno bančništvo 1913-1941", *Bančni vestnik*, Vol. 9, 1984, pp. 267-268.

in investments, never tackled an insurance business. This is quite comprehensible, since it had the same sphere of activity as Vzajemna zavarovalnica (insurance company), that was financially the strongest institution in Yugoslavia before the World War ll. Both were supported by a strong Catholic party, that also initiated their establishments; "Vzajemna" was founded twenty years prior to "Zadružna gospodarska banka" started a business.

On the basis of gathered information we can see, that the mentioned banks, controlled almost half of share capital in Slovenia. Again "Ljubljanska kreditna banka", the strongest Slovenian bank, had a leading position. It controlled one fifth of the Slovenian stock capital. The shares of the other two banks, "Kreditni zavod" and "Zadružna gospodarska banka" were not so large; however they played an important part in economic sphere. "Kreditni zavod" had about 15% and "Zadružna gospodarska banka" controlled about one twentieth of the entire share capital in Slovenia.[17]

The bankruptcy of the respected "Slavenska banka" from Zagreb in 1925, that was very active in Slovenia as well, was the result of the excessive long-term crediting of economic subject with short-term means. The consequence was a large number of wronged parties among the financial institutions. This was a new era in for the Slovenian banking, that was characterises with a restrictive monetary policy. The period of a favourable economic cycle was over. The banks were forced to re-organise and to consolidate their own positions and to write off a substantial part of irrecoverable investments. However painful this might have been, it contributed to the consolidation of the Slovenian banking system, so that it could put up with the Great Depression.[18]

5. The great depression of the thirties

The first signs of the depression in 1930 were a drop in prices and excess of stock, as well as the restraint of production. This situation had no influence on Slovenian banks at that time. In this year the liquidity even increased, while the assets and turnover culminated in the period between the two Wars. However this was only lull before a storm; in the next year the Great Depression struck. Besides its main causes, it was intensified by the domestic activities, connected with the short-term gold parity of dinar, the national currency.

The result of the restrictive monetary policy of the Central bank was, that the financial means in Slovenian banks were reduced for one fourth; the credits of the "Narodna banka" (Central National Bank) were no longer available, the savings deposits were reduced for 10%, and due to the reduction of import,

[17] Compass: *Finazielles Jahrbuch*, different volumes from the interwar period.

[18] D. Potočnik, "Slovensko denarništvo 1918-1938", *Spominski zbornik Slovenije*, Ljubljana, 1939, pp. 444-447.

the inflow of foreign currencies decreased. Despite of the lower level of liquidity, the credits have not been squeezed yet; the banks made up the deficiency by selling securities. The consequences were however unavoidable; the investors got distrustful, what resulted in increased losses of "Narodna banka", and the prices of government securities sank.

The inhabitants were scared. They started raising money in panic; they wanted to have it at once. The bankers tried to preserve the trust and to bring the disbursements to a halt by paying off the unlimited amounts of saving deposits. As the panic had not subsided after some months, they were due to the depletion of means forced to stop the cash payoffs. In 1932 the saving deposits decreased in Slovenian banks for almost one third, and the regression proceeded. The restriction, imposed on disbursements did not improve the situation; on the contrary: The moratorium on rural debts only aggravated the situation.[19]

Since the government has on one side released the farmers from debts, it must have taken similar steps on the other side as well. With one of the articles of the Farmer protection Act, it enabled the financial institutions, to legalise the status quo that is freezing of the savings deposits and disbursements of deposits on instalments over a long-term period, respectively. This was later on legalised with special Decrees that regulated the protection of the financial institutions and their depositors. In reality this meant the legal retraining of the short-term means of the depositors in the long-term ones. The Slovenian banks and other financial institutions rapidly made the use of this protection, but no to the same extend as the other parts of Yugoslavia did. About one third of the banks, more than half of savings banks and over two thirds of credit co-operatives resorted to this protection. So the savings of the Slovenian inhabitants were in Slovenian financial institutions frozen for many years. The banks must have written off the large part of the banking share capital during the Great Depression, and tried to raise it with new subscriptions. The regression of the balance sheet total came to an end in 1935. There was even a slight increase, so that the banks could support the economic growth after 1936.[20]

The consequences of the Great Depression on the banking sphere, started being sanctioned in 1935, when the Cabinet started passing the first Decrees regarding the banking reorganisation. The banks requested for protection and deferment of payments from the previous years, respectively. The Decrees on Bank Reorganisations based on the Financial Organisations Protection Orders from 1934, that provided that every financial institution, that is unable to suit the demands of the creditors, can acquire the protection. The Board of Trade and Industry could have, on the basis of request and in accordance with the owners, ordered the deferment of payment, reorganisation or out-of ban-

[19] T. Hočevar, *Slovensko poslovno bančništvo 1913-1941*, pp. 268-272.

[20] D. Potočnik, *Slovensko denarništvo 1918-1938*, p. 454.

kruptcy liquidation.[21] Usually, the deferment of payment was granted first, in order to get time to think things over. Shortly after the financial institutions had been reorganised, the rural economy was freed from debts. We will examine the reorganisation of "Ljubljanska kreditna banka" and of "Zadružna gospodarska banka"; the circumstances in these two banks determined the situation of the entire Slovenian banking system. They can also be used as a sample; the financial institutions were organised in the same way.

"Ljubljanska kreditna banka" was the first bank, that already in spring of 1932, gave the effect to the legally allowed deferment of payment and that was finally in August 1935 granted a deferment of payment for the period of six years, on the basis of the Financial institutions Protection Decree. At the same time the reorganisation plan was confirmed. The reorganisation procedures that were called the "reorganisation of the institution" included those measures that were allowed by the decree. The bank was supposed to cover its loss from the reserve fund and other disposable funds, and than to reach for the paper profit, that resulted from the revaluation of the real estate. Finally it should reach for the write-off of the nominal capital. In the case of "Ljubljanska kreditna banka" all the procedures were executed in accordance to the plan. However all these amounts were not enough to cover all losses. The shareholders had to make a contribution as well. It was established that the losses were so high, that 60% of the nominal capital should be written off, to cover the losses. The decree on the reorganisation allowed "Ljubljanska kreditna banka" to raise the nominal capital by voluntary conversion of old claims into preference shares. However "Ljubljanska kreditna banka" quitclaimed some of the reorganisation measures. The understanding of the creditors was such, and the situation not so very critical, that they could decline the foundation of the special reserve fund. They have also taken the advantage of raising the nominal share by halves. For this purpose they issued the preference shares with a yield of 4 % in order to change the claims into ownership shares.[22] This was the end of the reorganisation of "Ljubljanska kreditna banka", the bank became solvent, it covered all the new claims without any delays, and the old ones in due form; First of all, the deposits of the small depositors were paid out; whereas only a paltry sum of the larger ones was paid out. In 1940 "Ljubljanska kreditna banka" had essentially reduced volume of liabilities from the former operations – within five years it liquidated two thirds of the liabilities from before 1932, when the bank was granted the deferment of payment for the first time.[23]

Contrary to "Ljubljanska kreditna banka", "Zadružna gospodarska banka" did not reach for preventive measures so rapidly. By the year 1934 the bank tried to please its depositors and pay them their deposits within the dates sti-

[21] See the Finacial organisation protection orders in the period from 1933 to 1938.

[22] Compass: *Finanzielles Jahrbuch, Jugoslawien*, 1937, pp. 607-608.

[23] "Analiza bilansa", *Dodatak Narodnom blagostanju*, Vol. 19, 1940, pp. 59-60.

pulated in the contract. This was a large burden for "Zadružna gospodarska banka"; before the Great Depression this was the bank that from all Slovenian banks had in its balances the most of foreign means, and was on the first place in deposits. The final decree of deferment of payment for six years and the prescribed reorganisation was issued at the same time, as the one for Ljubljanska kreditna banka. The reorganisation measures issued for the two mentioned banks were not entirely in accordance with the decree of prescribed procedures. During the reconstruction, "Zadružna gospodarska banka" must have written of 90% of its nominal share. "Zadružna zveza", the central audit union of co-operatives in Slovenia, as the majority shareholder, suffered the heaviest losses. It possessed all together over nine tenth of the shares of "Zadružna gospodarska banka". At the same time "Zadružna zveza", as the monetary main office of the credit co-operatives could exact its claims against the bank. The claims were changed into ownership share by issuing new preference shares. The reorganisation of the "Zadružna gospodarska banka" also included the formation of the special reserve fund, in which, pursuant to the Financial Institution Protection Decree, only those claims against the bank could have been placed, where the rightful claimants disagreed with the conversion into ownership shares. So the in the balance the new rubric was added, the so called "special reserve funds". They placed 40% of the old deposits and other bank's debts into this column.[24] For "Zadružna gospodarska banka" these measures were sufficient to normalise its operations. "Ljubljanska kreditna banka" and "Zadružna gospodarska banka" reduced the old volume of operations , and increased the value of share and extension of payment on large circle of rightful claimants. The claims against the small investors have been more or less paid up by the end of the World War LL, whereas they had just begun to pay the first instalments to the larger rightful claimants. One fifth of the claims were unsettled on the item – "savings deposit and current accounts from the old operations".[25]

6. Bank market structure in the interwar period

The competition of the financial institutions on the Slovenian market was before the World War ll. keen. The joint-stock companies were competing with the savings banks, with credit co-operatives, as well as with the branches of the non-Slovenian banks. Despite of the impression that the banks were "crumbled", the particulars of the market structure reveal the different story.

[24] "Analiza bilansa", Dodatak *Narodnom blagostanju*, Vol. 38, 1937, p. 135.

[25] "Analiza bilansa", Dodatak *Narodnom blagostanju*, Vol. 18, 1940, p. 57.

Table 1: *The bank market structure in Slovenia (1925-1935)*

Banks	Share in total of credits			Share in total of deposits			Share in balance sheet total		
	in percentage								
	1925	1930	1935	1925	1930	1935	1925	1930	1935
Celjska posojilnica	3.0	6.0	7.7	10.5	4.5	7.6	3.8	5.3	6.6
Doljnelendavska hranilnica	0.5	0.4	-	0.8	1.3	-	0.4	0.7	-
Hipotekarna banka jugoslovanskih hranilnic	3.1	0.5	2.2	8.0	0.3	2.5	3.1	0.4	1.5
Kreditni zavod za trgovino in Industrijo	16.5	24.5	29.6	6.6	9.4	14.8	23.5	26.2	28.7
Ljubljanska kreditna banka	34.9	34.8	31.7	42.8	36.7	29.6	33.2	32.7	33.4
Merkantilna banka	2.8	-	-	3.8	-	-	1.7	-	-
Obrtna banka	1.7	1.0	1.0	2.2	1.1	1.5	1.2	0.8	0.7
Prekmurska banka	0.5	1.4	1.6	1.2	1,6	3.3	0.8	1.4	1.9
Prometna banka	1.5	1.6	1.7	2.4	2,3	0.3	1.0	1.4	1.5
Slovenska banka	4.0	-	-	2.5	-	-	2.9	-	-
Trgovska banka	12.2	-	-	5.4	-	-	10.5	-	-
Zadružna banka	1.8	1.8	-	1.4	2,1	-	1.3	1.4	-
Zadružna gospodarska banka	17.5	28.0	21.1	12.4	40,7	35.6	16.6	29.7	23.5

Source: Poročilo Društva bančnih zavodov v Sloveniji za leto 1925, Ljubljana, 1926; Poročilo o delovanju Društva bančnih zavodov v Dravski banovini za dobo 1930-1935, Ljubljana, 1936

The volume of the Slovenian banking was entirely different as it seemed from the large number of banks and other financial institutions. When looking at the table 1 we can establish, that in these years in Slovenia, banks and small – sized banks were operational. Three giants dominated the Slovenian banking system: Ljubljanska kreditna banka, Zadružna gospodarska banka and Kreditni zavod za trgovino in industrijo. The leadership of the Ljubljanska kreditna banka was undisputed, this bank controlled one third of the market all the time. About equivalent were “Zadružna gospodarska banka” and “Kreditni zavod za trgovino in industrijo”; in 1930s they both possessed about a quarter of shares. This three or rather four banks, (in 1925 “Trgovska banka” was rather strong as well), had about 84% of the balance sheet total of all Slovenian banks. As “Ljubljanska kreditna banka” took over “Trgovska banka”, its market share did not decrease, as it was expected to; “Ljubljanska kreditna” banka maintained about the same level. On the other hand the progress was made by “Zadružna gospodarska banka” and “Kreditni zavod za trgovino in industrijo”. Both banks extended their volume of trade, and their market share increased – but not on the account of “Ljubljanska kreditna banka”, but of the

Table 2: *The profits of the Slovenian banks (1925-1935)*

Banks	Profit of a certain bank compared to the total profit of the Slovenian banks in percents		
	1925	1930	1935
Celjska posojilnica	1.7	9.6	7.3
Dolnjelendavska hranilnica	0.3	1.1	–
Hipotekarna banka jugoslovanskih hranilnic	3.2	–	–
Kreditni zavod za trgovino in industrijo	21.2	28.8	26.1
Ljubljanska kreditna banka	45.2	43.7	40.7
Merkantilna banka	2.7	–	–
Obrtna banka	0.6	0.8	0.7
Prekmurska banka	0.8	1.2	0.3
Prometna banka	0.9	–	0.1
Slovenska banka	0.3	–	–
Trgovska banka	12.7	–	–
Zadružna banka	1.6	–	–
Zadružna gospodarska banka	8.8	14.8	21.2

Source: As for Table 1

other Slovenian banks. The remaining banks were losing their market share by the end of 1920s, and were at the beginning of 1930s present on the market with 10% of the balance total sheet. After the depression their share slightly increased. But the increase could not influence the changed relations that were re-established in the previous century.

The observation of the credit bank activities does not alter the facts evident from the balance sheet total. Even with these parameters, the three giants strongly prevailed. "Zadružna banka" was more successful only in deposits; the share was raised significantly in the second half of 1920s and outdistanced "Kreditni zavod za trgovino in industrijo" as well as "Ljubljanska kreditna banka". However this large share of the deposits is put in the true light, if we consider, that owner of nine tenth of this bank was "Zadružna zveza from Ljubljana", that was the monetary central office of the largest part of the Slovenian credit co-operatives. "Zadružna zveza" invested all available pecuniary resources in the development of the bank.

If we compare the relative situation of each bank – the deposits and loans that they had – we can see the unbalance with "Zadružna gospodarska banka" and "Kreditni zavod za trgovino in industrijo". In "Ljubljanska kreditna banka" these indicators were more or less balanced, while at the other two banks the situation was different. With "Kreditni zavod" the amounts of credit activities, exceeded the amount of savings deposits. In "Zadružno gospodarska banka" the situation was different; the relative part of the deposits exceeded the level of the loans. This information reveals the different structure of financial sources and different investment policy of the three leading Slovenian banks in the period before World War ll.

If we compare the described discrepancy of the three giants with the other small-sized banks, we establish that this difference was also evident from the profit and the share of the single bank if compared to the total profit of all Slovenian banks (Table 2).

The precipice between the two groups of banks, is large, if we put the criterion for profit in the forefront of the market structure analysis, and if we consider the defined circumstances, that resemble the balance sheet total. "Celjska posojilnica" again, even though bashfully and far behind, followed the three giants, while the contribution of the other banks to total profit was minimal. In 1930s it was only some percents and in 1920s a bit more. The consideration of a new criterion in the market structure analysis shows large discrepancies between the three leading banks. The facts are more than obvious, "Ljubljanska kreditna banka" made more that 40% profit of all Slovenian banks between the two Wars. "Kreditni zavod za trgovino in industrijo" followed; it made 50% less profit. The third one was "Zadružna gospodarska banka", notwithstanding that they had in certain periods, most of the foreign resources among all Slovenian banks at their disposal.

It is evident from the so far stated facts that the company performance differed from bank to bank in the period between two Wars. In order to make the position of a single bank even more evident, the comparison of their business performance has to be conducted. For this purpose the various data must be compared: the indicators of yield on capital, net interest, profit margin of the financial agents, yield on resources of the bank, effective loan interest rate and effective loan interest rate for borrowings and costs. We will analyse the business performance on the case from 1930. In this year the Slovenian banking culminated. The proportions are evident from the Table 3.

The discrepancies in capital yield are among the Slovenian banks in the beginning of 1930s no longer so obvious, as the used to be in the first half of 1920s. Within this category "Kreditni zavod za trgovino in industrijo" absolutely prevails. The high yield, at rather low margin of the financial agents, was rather the result of low banking costs, as a consequence of a good organisation and efficient working system in this bank. Similar parameters placed "Zadružna gospodarska banka" on a high position as well. "Ljubljanska kreditna banka" could not keep up with the other two main competitors. The yield on capital, the costs and the margin of the financial agents show about the same degree of discrepancy if we compare these parameters to the ones of "Kreditni zavod" and "Zadružna gospodarska banka". At the same time "Ljubljanska kreditna banka" achieved such a yield with the highest level of both effective loan interest rates and the highest disparity between them. "Ljubljan-

Table 3: *Analysis of the Slovenian bank's performance in 1930*

Banks	Yield on capital	Net interest	Margin of financial agents	Yield on resources of a bank	Effective loan interest rate	Effective loan interest rate for borrowings	costs
	in percentage						
Celjska posojilnica	10.4	2.4	2.8	2.9	–	–	1.5
Dolnje lendavska hranilnica	8	–	–	–	–	–	–
Kreditni zavod	12.9	1.6	1.8	1.7	–	–	1.0
Ljubljanska kreditna banka	8.8	1.5	3.0	3.2	10.7	7.0	2.0
Obrtna banka	4.9	2.7	4.1	4.1	7.7	4.7	3.2
Prekmurska banka	10.4	1.3	2.0	2.0	8.3	6.8	1.1
Prometna banka	–	1.2	2.3	2.4	3.1	1.0	2.7
Zadružna banka	7.2	1.7	5.7	5.7	6.8	5.4	3.1
Zadružna gospodarska banka	11.2	0.7	1.2	1.3	7.6	6.8	1.3

Source: Compass: *Finazielles Jahrbuch*, *Jugoslawien*, 1930

ska kreditna banka" was not only behind the two immediate rivals, but also could not keep up with the other two banks – "Celjska posojilnica" and "Prekmurska banka", that represented an average level of the Slovenian banking successfulness. The level of the other banks was much lower.

Another important question is the relation between certain forms of financial institutions, like banks -joint stock companies, savings banks and credit co-operatives in Slovenia. We will perform this comparison on the example of the share of deposits and loans that a certain group of financial institution had in a certain period.[26] At the beginning, in the first years after the World War l, the deposits and loans increased more rapidly with the banks, since their number also rapidly increased in these years; Prior to this, their level was so low, because the number of the banking institutions was rather small. After the period of inflation was over, the stabilisation followed, and the circumstances have taken a turn for the better; the credit co-operatives had highest increment of deposits and loans, the savings banks followed, whereas the banks had much lower increments if we compare them to the first half of 1920s. With the Great Depression the discrepancies in Slovenia grew. The movements of the volume of deposits and loans went in the opposite direction. If we could talk about the growth before, we can speak of a decline henceforth. It is also typical, that the deposits, like the loans decreased much more rapidly in the banks, than with savings banks and credit co-operatives. This was the consequence of the fact, that the banks were much more regardful towards their depositors and have been paying off the deposits to a larger extend, as the savings banks

[26] The data for such analysis were published in Spominski zbornik Slovenije, pp. 456-457.

or credit co-operatives have. Therefore the degree of the decrease of deposits and loans are mostly twice as high as with the savings banks and credit co-operatives, where the sum total gave the amount that exceeded the bank's payoffs. Such a movement of the deposits and loans volume with certain groups of financial institutions caused the change of their relative share on the market. The banking competitive position from the first half of 1920s, when the banks had on their accounts almost 60% of all Slovenian deposits, was together with the shares on granted loans, in the following years melting away. The savings banks and credit co-operatives started dominating as far as deposits were concerned. The relative part of the invested and loan assets decreased for one thirds; before the Great Depression it amounted to about 40% in both cases. At the same time the relative share of the credit co-operatives increased; they absolutely dominated in raising of the population's savings deposits, and became the largest lenders. The number of the savings banks was also increasing, but the development of the credit co-operatives was faster. During the Great Depression the number of banks was still decreasing and reached the lowest possible level in 1934. Compared to the years of inflation, the banking share was reduced for more than a half, and in this year only achieved one fourth of the total assets, that were invested in Slovenian financial institutions; their share on credits was a little higher. What the credit co-operatives might have lost in 1920s, compared to the banks, they regained in 1930s. Their share on deposits and loans was compared to the first half of 1920s doubled. In 1930s the share of credit co-operatives strongly increased. However this might be very misleading. The credit co-operatives had in their balances, beside the savings banks, fairly the most frozen claims, in both, credits and deposits.

7. World War II

The occupation of Slovenia and its dismemberment resulted in the extreme disproportion between the available economic sources and the existent banking potential of the occupied territories. The Germans seized most of the industrial capacities; the banking sector was concentrated in the Slovenian financial centre, Ljubljana that was together with the agrarian parts of Lower Carniola and Inner Carniola occupied by Italians. Hungarians occupied Prekmurje, region of Eastern Slovenia that was not so important for the economy. The following data illustrates the mentioned disproportion; the banks in Ljubljana were in possession of almost 92% of the entire balance sheet total of all Slovenian banks. On the other hand, only one fourth of the Slovenian working people were employed in Ljubljana and its surroundings.

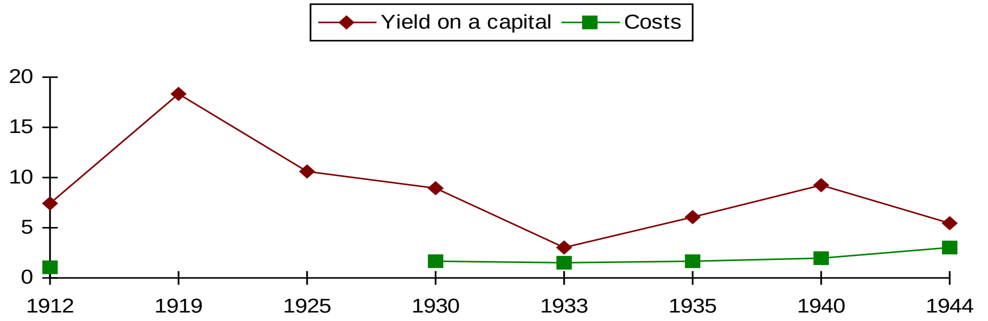
The occupiers have not only changed money; they also reached for the network of the financial institutions. The Germans closed down the branches of "Ljubljanska kreditna banka" and other domestic banks in Upper Carniola and Styria, they transferred their operations to the branches of the large Vienna banks, that were opened by the Germans in Slovenia. So "Creditanstalt" was operational in Maribor, Celje, Kranj, Bled, and "Länderbank" was operational in Maribor. The large part of assets was invested in the head offices in Vienna, or in the German Central Bank. The Germans transferred the credit co-operatives to the network of Raiffeisenkasse and Volksbank; the co-operative shares and share capital were destroyed. The result of the German reorganisation was the efflux of the Slovenian property to foreign parts.

After the Italian occupation of Ljubljana, all financial institutions must have swapped some of the financial means on the originally fixed rate. The exchange of dinar into lira resulted in losses due to the exchange difference. The Italians have sequestrated the branches of financial institutions from other parts of Slovenia and Yugoslavia. They replaced the Unions of financial institutions with the Unions of financial and Insurance institutions of Ljubljana region that became, pursuant to their arrangements, a part of "Pokrajinska zveza delodajalcev" (Employer's Organisation). Credit co-operatives remained more or less unchanged: only a special credit – co-operative institution was formed, that revised the operations.

Like Germans, the Italians also brought their banks to Ljubljana region. In May and June 1943 "Banca Commerciale Italiana" and "Banca di Roma" opened their branches in Ljubljana. The first one has not concerned itself with individuals, but with the entrepreneurial sector; the other one despite of its efforts and pressure on entrepreneurial sector and on the individuals did not succeeded in canvassing enough customers to begin with the business. In Prekmurje the credit co-operatives and "Prekmurska" and "Kreditna banka" preceded their operations. "Občinska hranilnica" in Murska Sobota was closed down. All financial institutions became a part of Budapest Head Office.[27]

The Second World War resulted in a huge downturn in the economy. The promising development was held up, the real and financial property were strongly devaluated, the Slovenian financial institutions were practically suppressed. The material war damage was large, not only because of the measures taken by the occupier, but also due to the battles, especially when the war was coming to an end.

27 Arhiv Republike Slovenije, Ministrstvo za finance LRS, fasc. 152.



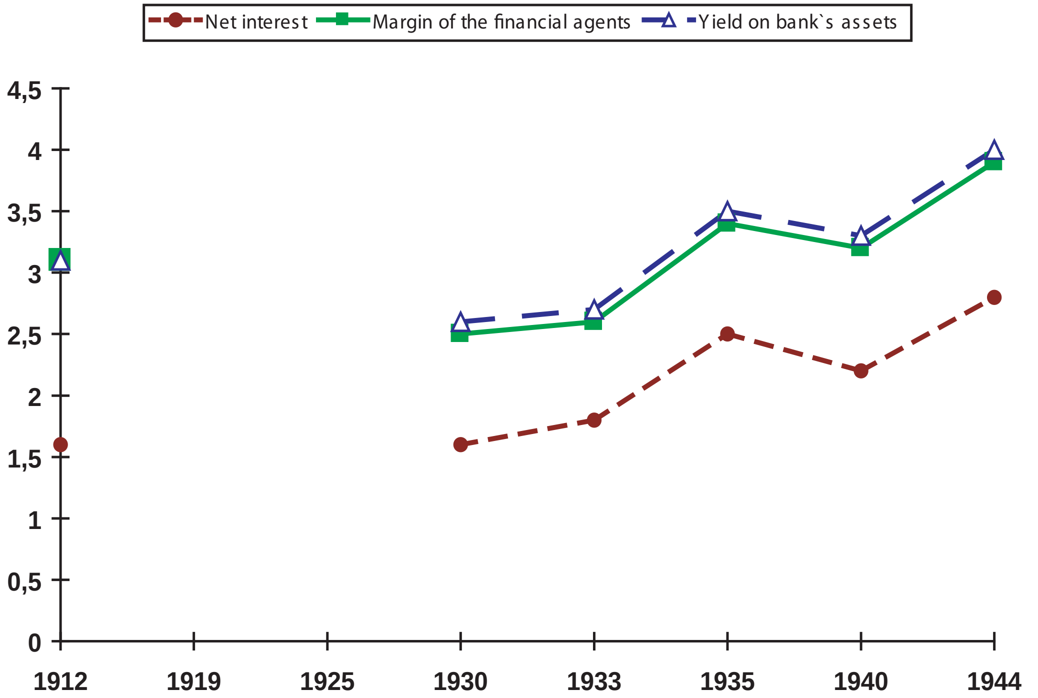
Picture 1: *Movement of yield on capital and movement of costs with the banking stock companies 1912-1944*

8. Performance of the banking joint stock companies

There is another very important viewpoint, that must not be overlooked- namely the history of the Slovenian banks – joint stock companies and their merit rating. In order to make the comparison possible, we calculated various data[28] from different periods, to some joint indicators. With regard to available data, we have decided, to illustrate the performance of the banks – joint stock companies, with following indicators: yield on capital, profit margin of the financial agents, banking assets, and costs. Regarding the period that has to be analysed, we have decided for certain years, that separately determine certain actions within this period. The year 1912 is one of last "normal" economic years, before the World War l. The year 1919 indicates the formation of a new state, as well as the growth of banks – joint stock companies. In the middle of 1920s the favourable period for the banks was over, and the period of the relative stability began. The end of 1920s and the beginning of thirties definitely meant the end of the comfortable and pleasant life for the banks. After the 1930, as the Slovenian banking culminated, the Great Depression captured the country and reached its peak in 1933. The recovery lasted from 1935 until 1940. I have illustrated the Second World War with the year 1944. For the war period we have considered only the banks from the territory, that was occupied by the Italians, from the so called Ljubljana region, where the Slovenian financial institutions conducted their business to a limited extend, and as such also elaborated their balances.

Pictures 1 and 2 illustrate the movement of the indicators. Regarding the yield on the capital, the first half of the 1920 s is outstanding. The yield on the capital was extremely high, what is also the reason that the number of banks

[28] T. Potočnik, *Slovensko denarništvo*, p. 448; Arhiv Republike Slovenije, Ministrstvo za finance LRS, fasc. 152.



Picture 2: *Movement of net interest, margin of the financial agents and yield on bank's assets with the banking stock companies 1912-1944*

increased in this time. In the second half of 1920s the yield was decreasing, but was still higher than before the World War l. The effects of the Great Depression are most obvious with the yield on capital; in the first half of the 1930s, the yield reached, compared to the pre-war time only one third. After 1933 the situation improved again, and became equal to the level, that was achieved in 1920s. If we add the movement of costs to the yield, the first thing that we can notice, is the steady balance of the costs that were slowly increasing throughout the centuries. In the period of conjuncture, the curves moved from each other, and during the crisis, mostly during the Great Depression and the World war ll. came closer to one another.

The tendency of the movement of income on interest rate, broker's profit margin and yield was similar between different banks, it only reached different level. In 1920s they maintained about the same level, or perhaps a little lower, than it was the case in Austria, what was the result of insufficient offer of resources in Slovenia. The peak is again the year 1930. While the yield on capital was rather high, and the net interest low, the brokers profit margin, the yield on banning means were also low. By all means lower than before the World War l. The changes of these categories were insignificant, nothing but few positive corrections that indicated the future movements and the way to get out of the bank crisis. The fact is that these banks overcame the crisis by shifting their burden on their clients, by raising the difference between the payments and disbursements on account of the interest rate, and by achieving higher price of the agent's commission and their own assets. This was confirmed in 1935, as the net interest exceeded the pre-crisis interest rates for more than a haft, the profit margin and yield on resources of the bank raised for more than one third. With the refreshed growth of the yield on capital in the late 1930s, what was the consequence of the improved economic conditions in the country, the three analysed values decreased a little, but still managed to maintain an extremely high level compared to the previous century. The profit margin and yield on banking means was sliding down to the one that was achieved during the Austrian period, as Slovenian banking system was just beginning to form. The net interest was much higher than they were two or three decades ago. The exception is the Second World War, when the situation aggravated and the criteria sank to the worst possible level, the level, that the bankers could not possible imagine before the War. The last three categories depend, just like costs, on the movement of yield on capital.

It is also evident that the 1920s was the golden age for the Slovenian banking in the period from the middle of the 20th century; the first half was characterised by the growth of inflation, and the second half by the cosiness and the uneasiness of the relative stability. On the other hand, in the second half of 1930s the lowest level of the Slovenian banking was achieved. The level was even lower, than at the end of the World War ll.

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BANKING SECTOR AS COMPETITIVENESS FACTOR OF FIRMS AND ECONOMY OF SERBIA*

Abstract: *This article discusses the importance of banking sector as a factor of competitiveness of firms and economy of Serbia. From the point of view of the firm (micro-competitiveness), banking sector and its services are considered as a price factor and from the point of view of the economy competitiveness (macro-competitiveness), this sector represents an institutional factor of competitiveness. It has been concluded that business policy and performance, and above all the price of loans and their and structure as well as the ownership and balance sheet structure do not have a positive effect on the competitiveness growth of Serbian firms and economy as a whole.*

Key words: *Serbia, banking sector, competitiveness, price factor, institutional factor.*

1. Introduction

The prosperity of market economy of developed countries depends on the level of development of real as much as of financial sector as well as on the quality of mutual relations of these two sectors. The task of the state is to provide necessary conditions for their operations primarily through the stability of institutions and sound economic legislation.

Financial sector in Serbia is reduced to banking sector while other segments of financial sector such as short-term securities market and capital market are of rudimentary importance. That is the reason why the functioning of the real sector depends largely on institutional characteristics and quality of the very support of banking sector.

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* *Translated from Serbian by Professor Dragana Gnjatović, PhD.*

In modern economies, their intermediary, monetary, deposit and credit functions as well as their role in transactions operations determine banks institutionally in the first place.[1] With the intermediation of banking sector and with help of monetary policy instruments, monetary authorities create the consistency between money and credit supply growth on one-hand and general economic goals such as full employment, stable economic growth, price stability and balance of payments equilibrium on the other.

The bank on the other hand represents – in its practical meaning - an entrepreneur institution whose basic goal is profit earning and its core occupation is borrowing and lending money and intermediation in monetary transactions. The quality of banking services influences largely the quality of the economy and financial position of all market participants while high price of bank loans as financial cost diminishes accumulative possibilities of a firm, consumption and investments. The role of bank loans is extremely important in modern economies, taking into account that their direction into most propulsive investments leads to the production process acceleration and contributes to economic growth. Thus, banking sector has very large impact on the effectiveness of the functioning of an economy as well as on the effectiveness of business performance of a firm.

2. Competitiveness of Serbian firms and economy: current state of affairs

The competitiveness of Serbian firms and economy is for a long period in the focus of interest of scientific public, economic policy makers and businesspersons themselves. The reasons for this are many. From the point of view of national economy, these reasons reflect in low level and unsatisfactory GDP growth rate, large foreign trade and balance of payments deficit, large external debt, further unemployment and inflation growth in 2005. From the point of view of structural characteristics of Serbian firms, these long lasting problems of real sector performance are primarily to be mirrored through huge indebtedness of large number of Serbian firms, low level of their solvency, liquidity, accumulative possibilities and self-financing and through their obsolete capital stock. In such situation, it is justifiable to conclude that competitiveness growth of firms and economy is one of necessary conditions for the recovery and prosperity of national economy.

We can analyze competitiveness considered as comparative advantage from the point of view of a firm (micro-competitiveness) and from the point of view of an economy (macro-competitiveness).

Micro-competitiveness or comparative advantage of a firm as its relative effectiveness and its ability to penetrate and stay on the market at which inter-

[1] V. Bjelica: *Bankarstvo,* Financing centar, Novi Sad, 1995, p. 20.

national competition is present means that a firm is able to sell its goods and services on such market. The competitiveness of a firm is based on relative prices and product quality in relation to the supply of other producers and the factors that affect micro-competitiveness are usually divided on price and non-price ones. Main elements of micro-comparative advantage are low production costs or high factor productivity.

Macro-competitiveness represents comparative advantage of national economy on the international market being an expression of its overall performance. In essence, macro-competitiveness is an ability to reach dynamic but still sustainable growth and development and it is based on a whole line of numerous and different factors: relative relationship between savings, investments and GDP, exchange rate, level of development of market and market institutions, quality of institutional infrastructure and level of technological development. Macro-competitiveness is based on the ability of a country to cover its imports by its export growth, namely to maintain balance of payments equilibrium or surplus and at the same time reach factor yields comparable to those obtained by the countries that are its major foreign trade partners. Competitiveness on macro level considers the ability of firms to realize higher factor income in conditions of direct influence of international competition.[2]

General conditions that caused the fall in competition of Serbian firms and economy since 1989 had been in details analyzed in scientific literature. The fact that drastic fall in competitiveness has continued even after the sanctions have been lifted, war operations finished in surrounding as well as in Serbia itself and transition period has started is especially worrying. Namely, in 2004, foreign trade deficit has rapidly grown to more than 7.4 billion US dollars being an expression of the fall in competitiveness of firms on international as well as on domestic market. The latest rank list of World Economic Forum for 2004/2005, comprising 104 countries, shows that Serbia has fallen to 89th place according to its medium term economic growth potentials and even to the 102nd place according to its internal macro-environment.[3]

Long-term goal of improving the level of competitiveness of Serbian economy leans on export growth, so the prime task is to strengthen investment activities in real sector. Data show that the share of investments in GDP in Serbia is 15%, in Slovenia 30%, while in developed countries it reaches to 40%, what eloquently well speaks about the need for investment growth. Without investments, there is no possibility to solve the problems of balance of payments and foreign trade deficit, which represents very serious threat to further economic development.

With such state of affairs, the quality of financial and especially banking sector is to consider as precondition of economic recovery and prosperity. The

[2] Jefferson Institute, *Konkurentnost privrede Srbije 2003*, Beograd, 2003, p. 25.

[3] http://jefferson.org/Dociments/konkurentnost05.pdf

question of improving the competitiveness of the banking sector itself is a problem of its own. Such improvements should result in quality growth and variety of banking services followed by reduction of their price. In the condition of lack or insufficient development of the competitiveness of the banking sector, the economy cannot reach its developmental potentials, which causes the fall of potential growth rate as well as the growth of unemployment.

Thus, banking sector has an extraordinary large importance for the development of micro-competitiveness of firms (where it represents one of price competitiveness factors) as well as for macro-competitiveness influencing it with its institutional, ownership and balance sheet structure.

3. Banking sector as a factor of competitiveness of a firm

From the point of view of micro-competitiveness, banking sector or business policy of banks represents a price factor of the competitiveness of a firm since the interest rate being the price of banking services takes a part in the creation of domestic prices. One can primarily analyze this influence from the point of view of the price of loans and the range and structure of their investments.

3.1. The price of a loan

The price of loans defined by the level of interest rates and commission fees is an important element of competitiveness taking into account that firms build the amount of calculated and paid interest and commission fee on credits and other banking services. That is the way the level of the price of banking services affects directly the competitiveness of a firm. Although radical changes have been made in the banking sector in Serbia (among other proclaimed goals, there were improving the competitiveness of banking sector itself and reducing the price of banking services), interest rates are still too high relative to accumulative possibilities of the economy as well as to purchasing power of the population. Interest rates are twice to three times higher in Serbia than in the countries of European Union. These rates are also remarkably higher in Serbia than in neighboring countries. The difference in price of loans in Serbia and in European Union is the reason why the firms from European Union can sell their goods and services at lower prices on international market. This fact speaks for itself about the importance of the price of loans as a factor of competitiveness of domestic firms.

The reasons for maintaining high interest rates are numerous and various. Among them the most important are: high net interest rate, high inflation rate, high banking reserves ratio of National Bank of Serbia, high yield rates on short term securities of National Bank of Serbia, constantly high demand for loans as well as high risk on loan investments in Serbia.

Net interest rate being the difference between active and passive interest rate is very high in Serbia, reaching more than 10%. Comparing to the European Union countries, net interest rate is much lower and it reaches maximally 2%. Based on data from Table 1 we can conclude that average net interest rate (only nominal interest rates are considered) was 0.85% in September 2005, which means that on yearly basis it was 10.69% because of the implementation of conformity method of calculation. When net interest rate is considered, we can single out primarily banks with foreign capital, taking into account that they can attract cheap financial sources through their domicile banks. For the reasons of acquiring profit, it is normal that these banks do not lower interest rates on loans so they are in the situation to gain extra-profit when investing money on Serbian financial market.

Table 1: *Average active and passive banking interest rates (in percentage, monthly level)*

	ACTIVE INTEREST RATE	2004	2005		
		Dec.	Jan.	June	Sept.
1.	On short term loans	1.23	1.27	1.17	1.18
2.	On long term loans	0.80	0.95	0.86	0.88
3.	Weighted average active interest rate (Sum)	1.16	1.24	1.11	1.12
	PASSIVE INTEREST RATE (All deposits)	0.30	0.31	0.27	0.27

Source: http://www.nbs.yu

Inflation rate in Serbia is very high. During 2005 inflation rate reached 16% to 17% what is much higher that earlier projected 9.6 percent.

National Bank of Serbia raised obligatory banking reserves rate on loans and deposits obtained by banks in foreign currency from 26% to 29% in October 2005. This restrictive monetary policy measure seeks for lowering indebtedness rate of domestic banks abroad as a prime source of their loans. Enlarged banking credit activity bases mostly on foreign financial sources. We can trace this fact from data on realized and planned growth of their indebtedness considering foreign loans and foreign deposits. According to data of National Bank of Serbia (Table 2) overall banks' debt accumulated though acquiring foreign loans and foreign deposits was 556 million euros in the mid 2005, which means that the debt has risen for 235 million euros or 73.2%. This measure of National Bank of Serbia will consequently induce the growth of active interest rates and the slowdown of banking credit activity based on enlarged borrowing abroad. Inflation rate growth as well as prolonged credit expansion of banking sector will probably provoke National Bank of Serbia to implement measures that are even more restrictive so there are already announcements of further enlargement of obligatory banking reserves rate on foreign loans and foreign deposits (even to 35%). This measure will induce further restrictions of borrowing conditions, growth of active interest rates and fall in overall banking credit availability.

Table 2: *Loans granted, banks external indebtedness and outstanding debt*

CATHEGORY	STATEMENT		CHANGES		Projection for the end of three months period			
					September		December	
	31/12/ 2004	30/06/ 2005	2-1	in %	Statement	in %	Statement	in %
	1	2	3	4	7	8	9	10
1.DINAR LOANS:*	214,654	262,288	47,634	22.2	291,231	11.0	326,110	12.0
TO POPULATION	64,602	81,628	17,026	26.4	89,602	9.8	103,732	15.8
- Foreign currency clause index	41,178	64,065	22,887	55.6	70,772	10.5	82,587	16.7
- Inflation rate index	2,950	3,483	533	18.1	3,770	8.4	3,729	-1.3
TO REAL SECTOR	141,706	173,244	31,538	22.3	194,440	12.2	217,656	1.,9
-Foreign currency clause index	86,451	112,978	25,627	29.6	136,504	21.8	152,928	12.0
-Inflation rate index	20,458	24,459	4,001	19.6	20,316	-16.9	21,767	7.1
2.LOANS IN FOREIGN CURRENCY**	787	811	24	3.0	801	-1.2	875	9.2
3. Banks external indebtedness**	321	556	235	73.2	688	23.7	874	27.0
- on the basis of loans	71	51	-20	-28.2	161	215.7	275	70.8
- on the basis of deposits	250	505	255	102.0	525	4.0	597	13.7

* in millions of dinars

** in millions of euros

Source: http://www.nbs.yu

Monetary policy measures that give banks the opportunity to invest in non-risky assets such as government and National Bank of Serbia securities with relatively high yieds also affect the level of interest rates. Thanks to these high yields on non-risky assets banks are stimulated to buy securities (with interests reaching more than 20% yeraly in 2005 depending on loan maturities) instead of granting credits. Besides this, interest rate on non-risky assets indirectly determines lower limit of interest rates on loans granted to firms.

Demand for loans is constantly large although banking interest rates are high. According to National Bank of Serbia data from June 2005,[4] overall potential credit demand of real sector is 47.9% higher than overall loans granted. However, according to formal applications for bank loans to credit boards of banks, credit demand is 28.6% higher than the loans approved by these boards.

Bankers name high investment risk in unstable economic, legal and political conditions in Serbia as a reason for high interest rates. However, data on

4 http:/www.nbs.yu/serbian/3_8.htm

disbursements do not confirm such claim. In mid 2005, the overall disbursement rate was 87.8%, where the disbursement rate on the loans to population (90.3%) was relatively higher than on the loans to real sector (84.3%). Comparing data for 2004 and 2005, we can conclude that certain fall in disbursements has occurred in 2005 since in 2004 the disbursement rate was 90.5% (87.0% for real sector and 92.1% for population).[5]

When dealing with the level of interest rate as a price of loans, it is necessary to analyze nominal active interest rate, effective interest rate, and manner of determining the price of loans (indexation of principal).

3.1.1. Nominal interest rates

Weighted average active banking interest rates (on all sorts of their credit placements to real sector and population) were 1.12% monthly in the third three months period of 2005 (short-term interest rate was 1.10% and long-term interest rate was 0.88% on monthly basis for loans approved to real sector). The analysis of these data show that there was a certain fall in nominal active interest rates but after September 2005, this trend has been changed (Table 1). However, we are taking here into consideration only one aspect of the price of loans – nominal active interest rate that only partially influences overall price of loans.

3.1.2. Effective interest rates

Besides nominal interest rates, banks use indirect ways to enlarge significantly the real price of loans with help of commission fee mechanism and credit indexation. In February 2005, in order to support competitiveness in banking sector in Serbia, National Bank of Serbia issued an Order on unique way of calculating and presenting effective interest rates on loans and deposits. According to this Order, each bank is obliged to present the following data for all loans granted and deposits received: nominal interest rate on loans, commission fees charged in the process of credit approval and deposit rendering expenses that could show up during the realization of loan contracts as well as criteria for indexation i.e. revalorization of loans and deposits. Banks are obliged to present so calculated effective interest rate clearly and visibly in their premises, in their advertisements in media and in loan or deposit contracts.

On the grounds of analysis of Conditions for financing small and medium sized enterprises from September 2005, we conclude that effective interest rates in banking sector (comprised of nominal interest rate, intercalary interest rate and compensation fee) were mostly from 1.46% to 2.02% on monthly basis, or from 19% to 27% on yearly basis respectively. Exchange rate changes and consu-

[5] Ibid.

mer prices growth are not included in calculations of effective interest rates. The highest effective interest rate on yearly basis was 34.4% in September 2005.[6]

3.1.3. Method for an indexation of loan principal

The interest rate, i.e. the price of loan as an indicator of relations between demand and supply on financial market has to be real in market conditions and that is the reason why it has to be somewhat higher than consumer prices growth. There are two ways to determine the price of money:

- *Application of fixed loan principal,* when interest rate adjusts to the consumer prices growth and has to be above their level; so, in this case, the loan principal is fixed and there is no revalorization of principal because the growth of interest rate is linked to the growth of consumer prices;
- *Application of indexation of loan principal,* when we use foreign currency clause or coefficient of consumer price growth for revalorization. Thus, if there is revalorization or indexation of loan principal, then one cannot link changes in interest rate to consumer price growth because one cannot calculate twice the compensation fee for using the same amount of money. Certain control of monetary authorities is necessary in this respect since the application of loan principal indexation as well as changeable interest rate has been the regular practice in banking sector in Serbia. Conclusion is that the interest rate on loans (before all on those with foreign exchange clause) should be significantly lower than the present one. According to the Inquiry of National Bank of Serbia on Business Activities and Intentions of Banks, from September 2005, loans in dinars to population with indexation clause represented 83% of all loans granted to population in the first half of 2005. When these loans are considered, banks implemented indexation of exchange rate in 95% of their credit activity and indexation of the inflation rate in remaining 5% of their credit activity. In the same period, loans in dinars with indexation clause to real sector represented 79% of all loans granted to real sector, where 82% of loans had an exchange rate indexation clause and 18% of loans had an inflation rate indexation clause (Table 2).

Taking into account the latest and the planned measures of National Bank of Serbia on one hand, and the causes of high interest rates on Serbian financial market on the other, one cannot expect lowering of the price of loans in the following period. Nevertheless, the monetary policy of National Bank of Serbia is, above all, primarily oriented to maintaining macroeconomic stability and reducing inflation and not to encouraging economic development.

6 NBS: *Uslovi kreditiranja malih i srednjih preduzeća,* September 2005

3.2. Level and structure of bank loans placements

In the first half of 2005, overall credit activity of banking sector in Serbia was 8,336 billion dinars, so the growth of credit activity was 57.7 billion dinars, or 18.6%.

Banks made the largest growth of credit activity towards real sector (31.3 billion dinars or 15.9%) and towards population (18 billion dinars or 28.0%) what amounts to 92.4% of overall banking loans placements (Table 3).

Table 3: *The structure of banking loans placements (in millions of dinars)*

	31/12/2003		31/12/2004		30/06/2005		Growth indices in 2004	Growth indices in the first half of 2005
	Amount	%	Amount	%	Amount	%		
Real sector	140,420	75.7	197,022	69.4	228,360	67.9	140	116
Population	28,439	15.3	64,283	22.6	82,293	24.5	226	128
State	13,551	7.3	20,130	7.1	23,494	7.0	149	117
Other fin. ins.	393	0.2	694	0.2	257	0.1	177	37
Nonprofit inst.	2,788	1.5	1,702	0.6	2,128	0.6	61	125
Sum	185,591	100.0	283,832	100.0	336,532	100.0	153	119

Source: NBS, *Bankarski sektor u Srbiji,* Izveštaj za drugi kvartal 2005, p. 6.

In the first half of 2005, the largest share of banking lonas placements were granted to the real sector (67.9%) and to population (24.5%). In the same period, there has been 22.2% growth of dinar placements where loans to population grew 24.6% and loans to the real sector grew 22.3%. Projected moving of dinar loans until the end of 2005 has a 12% positive trend where the banks are predict faster growth of loans to population (around 15.8%) than loans to real sector (around 11.9%). Predictions are a little bit lower than those movements realized in the first half of 2005. In the first half of 2005, loans in foreign granted currencies are recording 0.5% fall and the projections for the rest of the year are in favour of around 8% growth (Table 2).

Based on data analysis we can conclude that the structure of bank loans placements has negative trend from the point of view of the competitiveness of the economy since the relative share of those placements in the real sector (in relation to the loans to population) has a tendency to decline. At the end of 2003, this share amounted to 75.7%, at the end of 2004 it was 69.4% and in mid 2005 it represented only 67.9% of overall loans placements of banking sector (Table 3).

Separate problem is the structure and maturity of loans placements, since iz determines the level of investments. Loans should be directed primarily to production, provision of raw materials, i.e. to the creation of a new product. The structure of bank loans placements in Serbia does not fulfill this request since large share of loans granted to population is used for purchasing imported consumer goods. Such use of financial assets affects demand growth and inflation and cannot induce the production in real sector. According to the Inquiry of National Bank of Serbia on Business Activities and Intentions of Banks, from September 2005, one can conclude that the maturity structure of loans granted to the real sector is also unfavorable since the majority of those placements are of short term and not of investment character and that determines their use.

4. Banking sector as a factor of competitiveness of the economy

The influence of banking sector as macroeconomic and institutional factor depends on its ownership structure, balance sheet structure, concentration and competition in banking sector and the relation of banking sector growth to real sector growth.

4.1. Ownership structure of banking sector

From June 2001 to January 2002, National Bank of Serbia applied structural, drastic and crucial changes in commercial banking sector. It liquidated four large banks that participated with more than 66% in commercial banking sector balance sheet. It also closed a large number of smaller commercial banks. Parallel to the process of bank liquidation there were ongoing processes of bank mergers and foreign banks penetration in banking sector in Serbia. Proclaimed goals of those changes were the restructuring of banking sector and transition to market business operations, strengthening of private and foreign capital and that all was to be done in urgent and radical way.

Parallel to new measures of National Bank of Serbia, legal regulations were becoming more restrictive.

- Capital census necessary to open a bank amounted to 10 million euros;
- According to the amendments to the Law on bank bankruptcy, liquidation and rehabilitation, the newly formed Agency for bank bankruptcy, liquidation and rehabilitation got in charge to name the bankruptcy manager;
- There were new regulations on internal bank auditing and control of National bank of Serbia as well as on banks assets classification and its value control and also on the share of large and the largest possible loans in overall commercial banks assets.

In the first transition year (2001), foreign banks entered Serbia with so-called green field investments, i.e. opening new banks. In that year, five foreign banks came to Serbia. Since the beginning of 2002, National Bank of

Serbia used its discretionary right to deprive foreign banks from the right to undertake the green field investments "with the aim of diminishing potential systemic risk that derives from the presence of too large number of banks". It means that today one can enter Serbian financial market only through so-called brown field investments, i.e. buying one of the existing domestic banks. Due to the application of this measure, banks have become a scarce resource and thus the price of existing banks became higher.

During the first wave of reforms in 2001, foreign banks that entered Serbian market had the possibility to open their daughter firms where the green field investor as a founder was responsible for its obligations with all his property. However, it is indicative that not any investor used this opportunity, so all foreign banks that have business operations in Serbia opened their affiliates. It means that foreign owners are responsible for the obligations of these affiliates up to the value of invested capital. After the starting period in which market emerged National Bank of Serbia cancelled the possibility for foreigner to start a new bank, so today, foreign banks can only do business in Serbia through opening their affiliates.

Table 4: *Ownership structure of banking sector in Serbia*

	31/12/2000	31/12/2001	31/12/2002	31/12/2003	31/12/2004	30/6/2005
Domestic	85	43	38	31	32	27
Foreign	1	6	12	16	11	14
Total	86	49	50	47	43	41

Source: Godišnji izveštaji NBS, 2001, 2002, 2003 and 2004; Polugodišnji izveštaj NBS, 2005

Data show clearly that the structural changes undertaken in Serbian banking comprise of drastic cut of the number of banks and penetration of foreign banks in Serbian banking system (Table 4). On June 30 2005, the ownership structure of 41 banks was the following: foreign shareholders were the majority owners of 14 banks; domestic physical and legal entities were the majority owners of 13 banks and Republic of Serbia was the majority owner of 14 banks. Under the assumption of the continuation of this trend (in the meantime "Delta" bank was sold and there are suggestions for sales of other banks whose majority owner is the state) it is hypothetically possible that banking sector will be totally sold to foreign investors in the next few years. From the point of view of vital national economic interests, such finale of banking sector restructuring is quite risky and unacceptable. Since overall domestic savings of the population and accumulation of the economy is concentrated in banking sector, its overtaking would mean at the same time overtaking the control over real sector of the economy and by the same token over competitiveness policy. The answer whether in such situation foreign investors would be interested to strengthen the competitiveness of domestic or foreign economies is unambiguous and clear.

Besides, foreign banks have penetrated Serbian market because of exceptionally high profits based primarily on high net interests being their legitimate goal and they will stay on this market until profits become equal on domestic and foreign financial markets. That is the reason for opening an extremely important issue about the strengthening of domestic banking sector as a strategy for keeping a number of strong banks in ownership of domestic entities.

4.2. Financial assets structure of banking sector

On June 30 2005, according to balance sheet data, total financial assets of banking sector were 605.2 billion dinars. Among those assets, 279.98 billion dinars or 46.3% belonged to the banks with foreign majority ownership; 173.22 billion dinars or 31.9% belonged to the banks with majority ownership of the Republic of Serbia and 132.03 billion dinars or 21.8% belonged to the banks with domestic majority ownership. The share of five largest banks in total financial assets of banking sector was 47.65. The largest bank of Serbia owned 84.5 billion dinars of assets in its balance sheets or 14% of total assets in the balance sheets of banking sector.

Balance sheets data show that regardless the cut in number of banks and the increase in census necessary to open the bank, there are still no large banks in Serbia capable to follow large investment projects of vital importance for competitiveness growth of domestic economy.

Table 5: *Participation of banks in total financial assets and capital of banking sector*

	31/12/2001		31/12/2002		31/12/2003		31/12/2004		31/12/2005	
	Fin. ass.	Kap.	Fin. ass.	Kap.	Fin. ass.	Kap.	Fin. ass.	Kap.	Fin. ass.	Kap.
Domestic	86.8	84.3	73.0	80.6	61.6	73.7	62.3	80.3	53.7	n.n.
Foreign	13.2	15.7	27.0	19.4	38.4	26.3	37.7	19.7	46.3	n.n.
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	n.n.

Source: Annual reports of NBS

Also, according to data in Table 5, one can conclude that the growth of capital formation of foreign banks is lagging significantly behind the growth of their financial assets.

4.3. Concentration and competition in banking sector

The issues of concentration, i.e. enlarging banks and their competition are extremely important from the point of view of structural characteristics and the price of services of banking sector.

Processes of concentration and enlarging of banks are universal in their character and they are present in domestic banking system, too. These processes present themselves in cutting the number of banks and strengthening their financial assets and market position. Long-term trend of the concentration of commercial banks is followed by ever- larger diversification of business units and other organizational segments. Tendency of enlargement of commercial banks enables sound supply of banking services as a function of economic development or economic stabilization, taking into account that only strong banking institutions can guarantee financial security.[7] On the other hand, modern banking sector calls for the presence of strong competition aimed in essence for price reductions while strengthening of the quality of banking services.

Perceiving the level of competition in Serbian banking is thus inseparable from analyzing the level of its concentration. In domestic literature, we can often find that the condition for competition growth in banking sector is strengthening of its concentration that would call for financial and capital singling out of few leading banks. However, the analysis of competitive structure of banking sector in European Union as a whole as well as in each member state gives opposite picture. Namely, the study undertaken to evaluate the elasticity of income generated from interests on loans in relation to prices of banking services,[8] concludes that complete banking sector of European Union is doing business in the conditions of various degree of monopolistic competition. The results of this study support also the attitude that concentration diminishes the competition in banking sector that bases on well-known trade off between conflicting goals of attaining high level of competitiveness in the conditions of high concentration in banking sector. Those result are an important message for policy makers and central banks. From the point of view of the present state of affairs on domestic financial market, it is necessary to reconsider the contrariety between further processes of concentration on one hand and calls for enlarging the competitiveness of banking sector on the other. Thus, one must be carefully estimate any enlargement of the concentration in banking sector (through mergers or takeovers) from the point of view of its competitiveness. In that sense, it is necessary to reconsider the effects of the decision of National Bank of Serbia according to which it is possible to enter Serbian financial market only through taking over one of the existing banks.

7 S. Komazec, B. Krstić, A. Živković, Ž. Ristić, *Bankarski menadžment*, Čigoja štampa, Beograd, 1998, p. 134.

8 J. A. Bikker, J. M. Groenveld, *Competition and Concentration in the EU Banking Industry*, Du Nederlandsche Bank, June 1998, pp. 20-21.

Table 6: *Market shares of banks grouped according to the magnitude of their financial assets in the balance sheets, June 30 2005*

Financial assets	Number of banks	In thousands of dinars	Percentage share (%)
More than 45 bill. dinars	3	211,628,397	34.97
20-45 bill. dinars	3	128,150,395	21.17
10-20 bill. dinars	11	145,485,878	24.04
5-10 bill. dinars	8	81,176,392	13.41
Up to 5 bill. dinars	16	38.763.272	6.40
Total	41	605,204,334	100.00

Source: NBS: *Bankarski sektor u Srbiji, Izveštaj za drugi kvartal 2005. godine*

4.4. Threats of unsynchronized banking sector and real sector growth

Structural changes, penetration of foreign banks and large liquidity of banking sector induced high growth rates of bank loans. The index of bank loans growth in 2004 was 153, and in the first half of 2005 it was even 119 (Table 3). However, on the other hand, real sector and micro-economic indicators do not follow almost at all the expansion in banking sector (regardless favorable indicators for the last year), so one must ask a question if such relationship is sustainable in longer period. In the long run, high indebtedness growth of the economy and population as well as the growth of capital market is possible only if followed by GDP growth, industrial development and export growth. The structure of bank loans placements, characterized with significant share of credits that pursue the foreign trade deficit and supported with the exchange rate policy of strong dinar is a potential threat in present situation. Uncontrolled credit expansion might thus result in large indebtedness of firms as well as of population and in inflation. Banking sector growth has its limits in economic development of a country and each disharmony that would last too long could provoke enormous enlargement of internal debt and have consequences already seen in Russia in 1998. In that respect, special threat comes from ownership structure of banking sector and the possibility of retreat of foreign banks from domestic market in the conditions of high amounts of internal debt.

The 20% share of loans granted to real sector and population in relation to BDP is relatively low when compared to Hungary, Slovenia and Croatia where it is between 40% and 60%. Regarding this, it is necessary to bear in mind that the key parameter for assessing the level of indebtedness is the economic growth rate where high growth rates enlarge the space for credit expansion.[9]

[9] Z. Jeremić, "Promene u finansijskom sektoru Srbije – rezultati i ograničenja", *Strategija konkurentnosti Srbije 2005-2010*, "Kopaonik biznis forum 2005", pp. 228-229.

5. Conclusion

The improvement of competitiveness is a necessary condition for better performance of firms and economy as a whole. Taking into account that banking sector is basic segment of financial sector in Serbia, it has an extremely high influence on the competitiveness in real sector. Present performance of banking sector does not answer to the calls for improvement of micro and macro-competitiveness.

From the point of view of micro-competitiveness, negative effect of banks comes from extremely high price of bank services (interests and compensations) that affect the rise in prices on domestic goods on the markets where the foreign competition is present. Credit activity of the banks directs largely towards financing the consumer goods from imports inducing foreign trade deficit, inflation and diminishing directly the competitiveness of domestic firms. Besides, the bank loans placements are mostly short term in character so there are no grounds for investment growth as a key condition for the improvement of competitiveness. In that sense, present banking system is one of the obstacles for the improvement of competitiveness of the firms. Business policy of banking sector is determined in large extent by general economic and monetary policy of National Bank of Serbia. The logic of reaching the goal is replaced with the logic of the way or instruments to fulfill that goal taking into account that macroeconomic stability is an aim and not an instrument. In that sense, present and future announced measures of National Bank of Serbia will have negative effect on the competitiveness of firms because it will be more difficult to obtain bank loans and their price will be higher.

From the point of view of macro-competitiveness, present ownership and financial structure of banking sector as well as its general performance do not make an ambient that provides its growth. It would be very dangerous to continue existing trends of unlimited penetration of foreign capital and takeovers of domestic banks. In the case of prolonging these trends, we can be in the middle of situation in which the overall banking sector is in foreign hands and domestic capital accumulation of the economy and savings of population is under the control of foreign banks. After taking over the banking sector, foreign investors will start to control the real sector of the economy. In such conditions, it is clear that improving the competitiveness of domestic economy will not be the goal. Balance sheets data on financial structure of bank assets show that in Serbia there are no large banks capable to support big investment projects necessary for moving on the production process. In addition, there is a large discrepancy between economic growth rate and credit expansion directed primarily towards financing the consumer goods. In case of the continuation of these tendencies, large indebtedness of the real sector and population might occur. However, such concept of the development of banking sector is only a reflection of general macroeconomic policy and it cannot be a case for isolated corrections.

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MANAGING THE QUALITY OF METAL CONCENTRATE WITH THE AIM OF PROFIT MAXIMIZATION*

Abstract: *The quality of metal concentrate depends on the type of the ore from which it is obtained and the technology which is used for processing the ore. The most important parameter regarding the quality of the concentrate is the content of the basic metal. In order to ensure the maximal revenue in a mine, attention should be paid to managing the metal content in concentrate. This study provides the detailed analyses of all the parameters that influence the quality of metal concentrate, the main formula for calculating the price of the concentrate and the formula for calculating the optimal metal content in concentrate.*

Key words: *metal concentrate, price of the concentrate, the optimal metal content in concentrate.*

1. Introduction

The metal ore, which is exploited today, contains far less metal than is desired by metallurgy. Therefore, all metal ores undergo primary processing producing concentrates that contain metal in the desirable quantity.

The requirements in the field of metallurgy for minimal content of metal in concentrate are purely economical. In other words, metal production from the concentrate which contains metal in the level, which is below the minimal level, is economically unjustifiable. The situation when the metal content in concentrate is too high is also economically unjustifiable for concentrate producers, that is, for mines, because this leads to greater losses of metal in the ground. Smelting plants define, for each concentrate and metal, the minimal

* *Translated from Serbian by Ivana Milićević.*

values of quality parameters that mines have to respect in order to launch their concentrates in the market.

2. The concentrate and price quality

The quality of metal concentrate is defined by the following[1]:
1) content of the basic metal, $\boldsymbol{k}$ [%],
2) content of useful admixtures, $\boldsymbol{P}$ [%],
3) content of harmful admixtures, $\boldsymbol{P}_{\mathbf{h}}$ [%],
4) degree of moisture, $\boldsymbol{W}$ [%].

A very important parameter of the quality of ore and concentrate with certain ferrous metals (iron, manganese, chrome) is their coarseness (granulometric composition).

When non-ferrous metals are concerned, all their ores undergo primary processing (concentration), meaning that only their concentrates appear in the raw materials market. Their quality is determined by parameters from one to four.

1. The content of the basic metal in concentrate is the most important indicator of its quality. Consumers – buyers of concentrate (smelting plants) are bound by certain standards and among them is the bottom level of the allowed content of the basic metal in concentrate $\boldsymbol{k}_{\mathbf{min}}$. The greater the content of the basic metal, the higher the selling price of the concentrate. Moreover, when we are talking about the selling price of the concentrate, it should be emphasized that it is not the concentrate that is being sold but the metal that is in the concentrate. Since prices are usually presented per production unit, in our case that will be the concentrate mass unit (one ton).

In the concentrate mass unit (one ton), the mass of metal is:

$$M_{\mathrm{m}} = \frac{1 \cdot k}{100} = \frac{k}{100}, \text{ [t]} \tag{1}$$

When we multiply the mass of metal $\boldsymbol{M}_{\mathbf{m}}$ with the price of metal in concentrate $\boldsymbol{C}_{\mathbf{mk}}$, we get the selling price of the concentrate $\boldsymbol{C}_{\mathbf{k}}$:

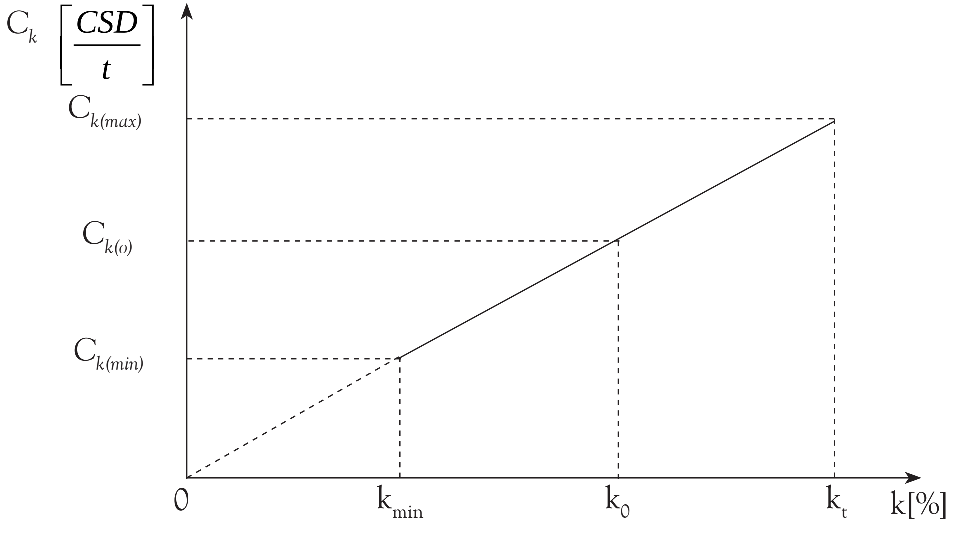
$$C_{\mathrm{k}} = M_{\mathrm{m}} \cdot C_{\mathrm{mk}} = \frac{k}{100} \cdot C_{\mathrm{mk}}, \text{ [CSD/t]} \tag{2}$$

whereby $\boldsymbol{k}_{\mathbf{min}} \leq \boldsymbol{k} \leq \boldsymbol{k}_{\mathbf{t}}$.

1 N. Magdalinović, M. Magdalinović-Kalinović, *Ekonomika prirodnih resursa*, “Nauka”, Beograd, 2006

Equation (1) shows that the selling price of the concentrate mass unit is in direct proportion to metal content in concentrate k and the price of metal in concentrate Cmk. Picture 1 shows the graphic presentation of equation (2), and it is defined for the values k between $\boldsymbol{k}_{\mathbf{min}}$ min and $\boldsymbol{k}_{\mathbf{t}}$**.** So $\boldsymbol{k}_{\mathbf{t}}$ stands for the theoretically greatest content of metal in concentrate, which is not practically possible to reach, nor is it the aim because it is, generally, economically unjustifiable. In other words, there is an optimal content of metal in concentrate $\boldsymbol{k}_{o}$, above which it is not economically justifiable to increase the content, although the selling price of the concentrate increases since the overall economic effects decrease as a result of the decrease of exploitation of metal in concentrate.

The lower level of metal content in concentrate is limited because of the expenses smelting plants make during the processing phase. In other words, when metal content in concentrate decreases, the expenses per mass unit increase and metal losses in the smelting clinker rise.



Picture 1: *Price of concentrate in function of metal content in concentrate*

2. Useful admixtures in concentrates increase the quality of concentrates as well as the selling price. For example, useful admixtures in copper concentrate are precious metals, platinum, selenium, palladium, and germanium; in iron ore and concentrate, these are manganese, chrome, etc. However, here, as well as with basic metals, there is the bottom level of the content of useful admixtures Pk (min) under which there is no valorization through the price of the concentrate.

3. Harmful admixtures, as their name suggests, decrease the quality of the concentrate, and consequently its selling price. The upper level, that is, the maximum allowed level of content of certain harmful admixtures $P_{h\ (max)}$ is defined for all metal ores and concentrates. For some harmful admixtures, $P_{h\ (max)}$ means the level above which "penalty" occurs, that is the price of the concentrate decreases; for others it is the level at which the concentrate is being used, that is the level above which it cannot be used at all, and therefore has no price.

Harmful admixtures are harmful to:
- the process and quality of the produced basic metal,
- the environment,
- the process and the environment, which is the most frequent case.

For example, harmful admixtures in copper concentrates are lead, zinc, arsenic, mercury, etc. The maximal content levels of these metals are: lead 2%, zinc 2%, arsenic 0,2%, mercury 0,0005%. These metals are harmful to the process and are especially harmful to the environment – especially to the health of people and animals. In the past, buyers of the concentrate treated the content of harmful admixtures that are under the maximal allowed level in different ways. Some did not lower the price of the concentrate, although the majority did so. Taking into account the strict regulations concerning the environmental protection, it is quite normal to expect lower prices of the concentrate even for the least content of harmful admixtures. So, considering the lower prices of the concentrate, those who decide to buy and process it, have to calculate in advance the greater expenses needed for the environmental protection, as well as possible penalties for polluting the environment.

4. Moisture is harmful to all ores and concentrates. Moisture in concentrates of non-ferrous metals varies from 10% to 15% and depends on the type and coarseness of the concentrate as well as on the very technology which is used. The best situation is when the concentrate contains the least possible degree of moisture.

Moisture (water) in concentrates causes double damage: it increases transportation costs, since when concentrate is being transported to a smelting plant, a certain amount of water is being transported too; the expenses in the smelting plant are also higher since part of the energy is used on drying and water evaporation. What usually happens is that the price of the concentrate is lowered if moisture exceeds 10%, which is the lowest level that can be technologically achieved in practice. We will give a simple example in order to illustrate how a higher level of moisture in concentrate can influence transportation costs. If we take that copper concentrate mass is 200,000 t/y (suitable for an average mine anywhere in the world), and if moisture is 2%, that means that additional 4,000 t/y of water have to be transported, which further means additional 200 lorry tours (if the capacity of a lorry is 20 t). The column of lorries, in this case, would be 10 km long.

As the previous analysis shows, all four parameters influence both the quality and the selling price of the concentrate $\boldsymbol{C}_{\mathbf{k}}$.

The selling price of the concentrate can be defined in the following way[2]:

$$C_{\mathrm{k}} = \frac{k}{100} \cdot C_{mk} + \Delta C_{\mathrm{Pk}} - \Delta C_{\mathrm{Ph}} - \Delta C_{\mathrm{w}}, \ [\mathrm{CDS/t}] \tag{3}$$

Whereby $\Delta \boldsymbol{C}_{\mathbf{pk}}$ - stands for increased price of the concentrate due to useful admixtures (CSD/t),

$\Delta \boldsymbol{C}_{\mathbf{ph}}$ - stands for decreased price of the concentrate due to harmful admixtures(CSD/t),

and $\Delta \boldsymbol{C}_{\mathbf{w}}$ - for decreased price of the concentrate due to increased moisture(CSD/t)[1].

The price of metal in concentrate $\boldsymbol{C}_{\mathbf{mk}}$ always depends on the content of metal in concentrate, and in the most general case can be given in the following form[3]:

$$C_{mk} = C_m + 10^2 \cdot T \cdot f(k) \tag{4}$$

Whereby

$\boldsymbol{C}_{\mathbf{m}}$- stands for the basic price of metal at standard metal content in concentrate, $\mathbf{k}_{\mathbf{r}}$ (CSD/t),

$\boldsymbol{T}$ - stands for the coefficient used in the smelting plant

$\boldsymbol{f}(k)$ - stands for the function which determines decrease – increase of the basic price of metal which depends on the metal content in concentrate.

Function $\boldsymbol{f}(k)$ can have two basic forms for different metals and smelting plants:

$$f_1(k) = \left(\frac{1}{k_r} - \frac{1}{k} \right) \tag{5}$$

or $$f_2(k) = (k - k_r) \tag{6}$$

Whereby k_r stands for the standard metal content in concentrate, (CSD/t).

[2] Ibidem

[3] R. Jovanović, *Ekonomsko-tehnološki model upravljanja flotacijom bakra*, M.S. thesis, Megatrend univerzitet, Beograd, 2005

The formula given at (5) is the most often used one.

Increasing the price of the concentrate due to the increased content of useful admixtures is calculated using the following formula[4]:

$$\Delta C_{pk} = X \cdot (P_k - P_{kmin}) \tag{7}$$

Whereby P_k - stands for content of useful admixtures in concentrate,
P_{kmin} - stands for the minimal content of useful admixtures in concentrate which is valorized through the price of the concentrate,
X - stands for the proportion coefficient.

Decreasing the price of the concentrate due to the content of harmful admixtures is calculated using the following formula[5]:

$$\Delta C_{ph} = Y \cdot (P_h - P_{hmin}) \tag{8}$$

for $P_{h\min} \le P_h \le P_{h\max}$

Whereby P_h - stands for the content of harmful admixtures in concentrate,
Y - stands for the proportion coefficient

For $P_h \le P_{h\min}$, there is no price correction of the concentrate; for $P_h > P_{h\max}$, the concentrate has no use value.

Decreasing the price of the concentrate due to moisture is calculated using the following formula[6]:

$$\Delta C_w = Z \cdot (W - W_r) \tag{9}$$

for $W \ge W_r$

Whereby W - stands for moisture in concentrate, [%].
W_r - stands for standard moisture, [%]
Z - stands for the proportion coefficient.

For $W \le W_r$ is $\Delta C_w = 0$.

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4 N. Magdalinović, M. Magdalinović-Kalinović, *Ekonomika prirodnih resursa*, "Nauka", Beograd, 2006

5 Ibidem

6 Ibid.

3. Managing the quality of metal concentrate

The presence of useful and harmful admixtures in concentrates largely depends on the mineral characteristics of the ore, and here technology has little influence. A greater influence can be exercised when moisture is concerned. In other words, when we come to what the management of the mine can do for the quality of metal concentrate, the content of metal in concentrate is the only issue they can do something about.

Managing the content of metal in concentrate is done through managing the technology used for producing the concentrate.

The aim of managing the content of metal in concentrate is achieving the maximal revenue in the mine.

Mines generally produce ore, and sell the concentrate, which is obtained after processing the ore.

The price of the produced concentrate, as it has already been stated, depends primarily on the content of metal in concentrate, that is, on metal mass in the concentrate mass unit.

The mass of metal $\boldsymbol{M_m}$, which is obtained from the ore mass unit into the concentrate, is defined in the following way[7]:

$$M_m = \frac{r \cdot I}{10^4}, [\mathrm{t}] \tag{10}$$

Whereby ***r*** - stands for metal content in the ore, [%]
I - stands for exploitation of metal in concentrate, [%].

In the process of flotation of metal ore, there is a linear relationship between the exploitation of metal in concentrate I and metal content in concentrate k, and it is as follows[8]:

$$I = a - b \cdot k \tag{11}$$

Whereby *I* - stands for exploitation of metal in concentrate, [%],
k - stands for content of metal in concentrate, [%],
a, b - are the parameters of the flotation process which are determined experimentally for each ore and flotation.

Taking into account formula (11), formula (10) for metal mass will have the following form[9]:

7 Ibid.

8 R. Jovanović, op. cit.

9 Ibidem

$$M_m = \frac{r \cdot (a - b \cdot k)}{10^4}, \text{ [t]} \tag{12}$$

The value of metal in concentrate which is obtained from the ore mass unit is:

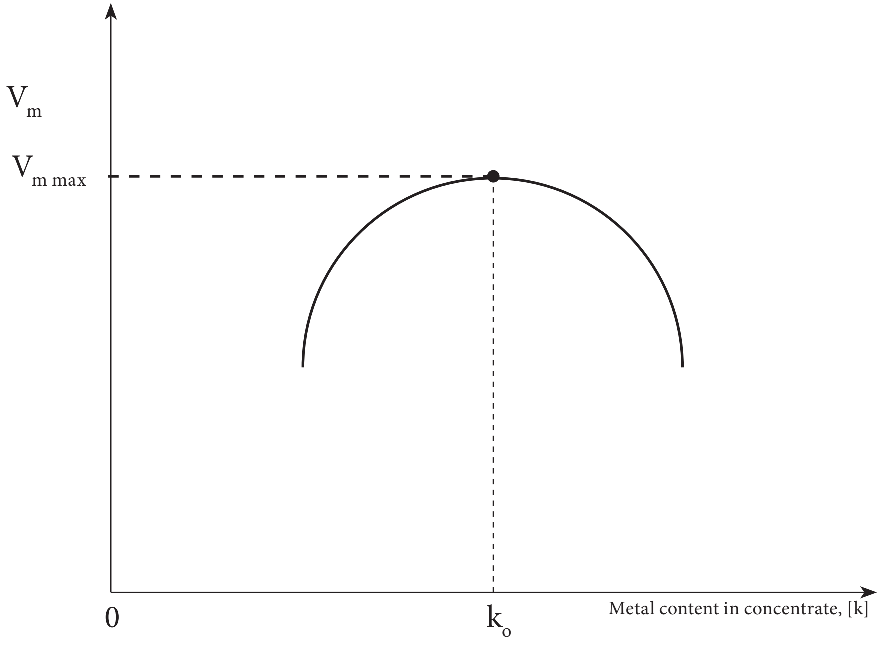
$$V_m = M_m \cdot C_{mk} \tag{13}$$

Whereby $\boldsymbol{C_{mk}}$ stands for the price of metal in concentrate, defined by equation (4).

If we take into account that function f(k) in equation (4) is defined by formula (5), and if we incorporate formulas for $\boldsymbol{M_m}$ from equation (12) and $\boldsymbol{C_{mk}}$ from equation (4), we will get the following formula[10]:

$$V_m = \frac{r \cdot (a - b \cdot k)}{10^4} \cdot \left[C_m + 10^2 \cdot T \cdot \left(\frac{1}{k_r} - \frac{1}{k} \right) \right] \tag{14}$$

Equation (14) represents the parabola equation with the maximum in the point with the abscissa k_o (picture 2).



Picture 2: *Value of metal in concentrate obtained from the ore mass unit, depending on metal content in concentrate*

[10] Ibid.

So, metal content $\boldsymbol{K}_{\mathbf{o}}$ is the optimal metal content in concentrate at which the mine has the maximum revenue per mass unit of produced and processed ore.

In order to determine the mathematical formula for the optimal metal content in concentrate ko, it is necessary to use the first derivative of the function given in equation (14) and to equalize it with zero.

$$\frac{dV_m}{dk} = \frac{r \cdot b}{10^2} \cdot \left(\frac{C_m}{10^2} - \frac{T}{k_r} \right) + \frac{r \cdot T \cdot a}{10^2} \cdot k^{-2} = 0 \tag{15}$$

from which we can derive the formula for the optimal metal content in concentrate $\boldsymbol{k}_{\mathbf{o}}$, which is as follows:

$$k_o = \sqrt{\frac{T \cdot a}{b \cdot \left(\frac{C_m}{10^2} + \frac{T}{k_r} \right)}}, \ [\%] \tag{16}$$

Whereby
- $\boldsymbol{k}_{\mathbf{o}}$ - stands for the optimal metal content in concentrate, [%].
- $\boldsymbol{T}$ - stands for the coefficient used in the smelting plant, [%],
- $\boldsymbol{C}_{\mathbf{m}}$ - stands for the basic price of metal in concentrate, (CSD/t),
- $\boldsymbol{K}_{\mathbf{r}}$ - stands for the standard content of copper in concentrate, [%],
- $\boldsymbol{a}$, $\boldsymbol{b}$ - are the parameters of the flotation process which are determined experimentally for each ore and flotation.

The second derivative of the function given in equation (14), which is less than zero, also confirms that point ***M*** in picture 2 with coordinates [$\boldsymbol{k}_{\mathbf{o}}$, $\boldsymbol{V}_{\mathbf{m\,max}}$] is the maximum point of the curve Vm=f(k):

$$\frac{d^2V_m}{dk^2} = -2 \cdot \frac{r \cdot T \cdot a}{10^2 \cdot k^3} < 0 \ (a>0) \tag{17}$$

Equation (16) is the formula for the optimal metal content in concentrate, and it is the mathematical model for managing the quality of metal concentrate with the aim of making the maximum revenue. Taking into account the basic price of metal in the market and the price of its industrial processing, this model helps determine the optimal metal content in concentrate at which the mine makes the maximum profit.

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Commentary
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RETROSPECTIVE OF THE THIRD INTERNATIONAL SCIENTIFIC MEETING "EMPOWERING COMPANY AND ECONOMY COMPETITIVENESS" *

Megatrend University, Belgrade, December 9th, 2005

Megatrend University of applied sciences, started to organize international scientific meetings in 2003, with the idea to gather respected scientists, economists, and specialists in various scientific areas annually, who could contribute with their papers in studying and solving problems that exist in our economic practice.

From the very first moment of realizing an idea on scientific meeting, the notion prevailed, that meeting should be of international character, in the way to learn from the knowledge and experience of renowned scientists from abroad. Namely, during 15 years, cooperation between Megatrend University and numerous international universities appeared to be broadly fertile within the exchange of knowledge and scientific results by the mean of general scientific contribution, as well as improvement and increase of its own quality within this process. Accordingly, professors that lecture at the universities in France, Germany, Hungary and South Korea participated in the meeting.

A topic of the first meeting was "Radical changes in companies and economy considering globalization", the second was under the name "Company performance improving – business clause in European environment", and the third – "Empowering company and economy competitiveness".

Members of Organizing Committee professors Mića Jovanović, Momčilo Milisavljević, Sung-Jo Park, Ph. D Jean Jacques Chanarons, Oskar Kovač, Vladimir Prvulović, Momčilo Živković, Verka Jovanović, Dragana Gnjatović, Mirko Kulić and Nedeljko Magdalinović created the topic of the third international scientific meeting.

* *Translated from Serbian by Jelena Batić.*

Basic intent of Organizing Committee was to analyze annually actual and significant topics on international business. In the situation when our country creates its national development policy and tries to find the best path for economy and companies to be more competitive, the topic imposed itself.

In the preface of the Proceedings of papers from this meeting, there is a detailed explanation of the topic chosen.

"Companies and economy must continually search new sources of competitive advantages, as well as ways of facing with new forms of competition. It requires understanding of dynamics and character of the competition. National environment has central role in competitiveness success of the company. Namely, competitive advantage emerges and lasts in national economy, and it results from effective combination of conditions in national economy and company strategy.

International competition is final indicator of quality and efficiency of business companies and national economy. Based on this criterion, both companies and economies find their places on international market. All those who want to do business on the markets of developed countries, must improve their international competitiveness."

The third meeting took place on Megatrend University in Belgrade on December 9th 2005, and gathered numerous scientists and businesspersons. It is important to emphasize the presence of numerous students of Megatrend University too. The practice of the meeting is to call students to participate in its work so that they get a chance to hear and meet experts in the field of contemporary problems in market economies and company performance.

The participants of the meeting worked in three sessions. The first two sessions were general ones, and the 3rd session had two groups that considered separately the competitiveness problems related to economy and companies.

Professor Mića Jovanović, Rector of Megatrend University opened the meeting. Professors Momčilo Milisavljević and Momčilo Živković greeted all participants and guests.

There were 28 paper presentations on the meeting. Apart from professors and assistants from Megatrend University who participated (representatives from all university departments) colleagues from other private and state universities presented their papers on the meeting. In this way, cooperation with our colleagues from other universities continues, thus we hope that, even in the next, fourth international scientific meeting, they will take part in great number as well.

General opinion expressed by all participants is that, in the world and Serbia as well, states and companies can use different instruments for increasing their competitive advantage. As far as the economy is considered, we can mention few possible solutions, such as changes in fiscal and monetary policy, legislation, information technologies and finally understanding solutions for actual problems in the phase of transition, which is of vast importance for national economy. Considering companies, participants offered the following solutions: company restructuring, product quality management, company repositioning, protection of industrial property, re-engineering etc.

Thus, there have been plenty of ideas for concrete solutions. The authors of papers gave their efforts to present their opinion regarding economic situation and to attract the audience with their scientific knowledge. The audience agreed that presentations of papers were of high quality and their authors enriched them with new knowledge on the subjects discussed.

Megatrend University published the collection of papers before the meeting, so the organizers had a chance to present its Proceedings to the press and media in advance.

At the end, it is necessary to emphasize that many people employed at the University had participated in organization of the meeting, starting from university management, professors, assistants, translators, and fellows from publishing sector. As each year, all of them gave their best for this meeting to be at least as good as the last one, or even better.

Accordingly, it is our pleasure to invite you to participate in our fourth international scientific meeting that will take place on Megatrend University on December 1st 2006, under the title “Promotion of international business within companies and economy”. We hope that this meeting, as previous three of them, will provoke great interest of scientists, specialists and businesspersons, and its participants will present interesting and innovative papers.

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EUROPEAN INTEGRATION – THE GREATEST SUCCESS OR "BABYLONIAN TOWER OF OUR DAYS" *

An essay on the book "Economics of European Integration: Limits and Prospects"
by Miroslav N. Jovanović, PhD,
Edward Elgar Publishing Limited, Cheltenham, UK, 2005

Miroslav N. Jovanović, PhD, the author of the book "Economics of European Integration: Limits and Prospects", has degree in economics, and is employed with European Economic Commission within United Nations. He studied at the universities in Novi Sad, Belgrade, and Amsterdam and at the Royal University "Kingstwon", Ontario. His main interests are international economic integration, European Union and its expansion, industrial, trade policy, and policy of competition, economy of regions and economic geography, multinational corporations and direct foreign investments. He is an author, co-author and editor of seventeenth books and many articles.

The book "Economics of European Integration: Limits and Prospects" had two editions, in English and Serbian languages. This essay is based on the second edition in Serbian language, which was created by both author himself and Professor Oskar Kovač who thought that local academic and expert public should not be deprived of such an important work.

European Union and its integration process today strongly stress current global movements, a phenomenon in international economy, which is in the same time subject of both gratification and disputes. Considering everything stated above, the question is whether EU should continue to expand or its collapse will become a serious issue. Readers of the book "Economics of European Integration" will have the opportunity to consider the issue of beginning, development, functioning, as well as the scope of potential area for the improvement of economic integration. The book structure and the way in which the topics are presented offer the answer to these questions and dilemmas. In other

* *Translated from Serbian by Jelena Batić.*

words, the book presents interesting and inspiring matter about relevant issues of our days, which shall be of interest to anyone who study social sciences or pursue career in public relations, as well as to the readers whose intellectual curiosity is intrigued by the complexity of a topic presented in a given work.

The book is written in academic language, which is adjusted and close to everyday speech even when presenting and explaining very complex issues, and answering controversy questions. This enables better approach and brings clarification of the issue of regional integrations in spite of the European geo-historical complexity with its diverse levels of cooperation, and the "complexity" of the conceptual analysis of the national identity emerging from the specific social process. One should also note that our social reality, in spite of the frequent usage of the term European integration, in everyday speech and in academic debates, still lacks books on this phenomenon.

The author presented the results of his research in fourteen chapters including the final considerations in the appendix. The value of this book is reinforced with various figures including pictures, charts and tables, which together with two articles from the appendix and extensive bibliography enable better understanding of this matter, encourage independent analysis, and stress its significance for modern society. More precisely, the work is divided into the following areas:

- The beginnings and the development of EU
- Monetary policy
- Fiscal policy and the budget
- Common agricultural policy
- The policy of the competition
- Industrial policy in the field of production and services
- Trade policy
- Regional policy
- Capital mobility
- Labour mobility
- Social policy
- Ecological policy
- The policy of transport
- Expansion to east

In the introductory chapter, the author methodologically and chronologically presents the development and the origin of the Union, pointing out its modest beginning based on the Union for coal and steel developed as the way to overcome dispute between France and Germany. He, then, introduces the fact that the European integration process has become one of the most significant economic activities, which later extended to the political and defence field. Its evolution bases on the historical and civilization values, as well as on the tendency to preserve peace and stability, realize social improvement and respect of human rights and freedoms.

Further, the author considers the most significant sectors for the survival of the Union. It should be noted that within some of the sectors the firm integration relations were established in the very beginnings of the Union. The monetary policy, presented in the second chapter, represents the issues common to the majority of the macroeconomics phenomena. The author points out how delicate this issue is since it is a pioneer attempt, which poses difficulties for making comparison and developing conclusions, which would point out its advantages and disadvantages. However, Miroslav Jovanović's analysis of this issue is successfully based on the new theory of monetary integration conducted according to the model of expenses and gain. In this case, expenses could be reduced to the disabling of the independent monetary polices in terms of the decisions on the changes of the foreign currency exchange rate, the ratio between the inflation and the unemployment, as well as the ability to manage regional development policy. On the other hand, the gain from creating monetary integrations that lead to stability of the foreign currency exchange rate, prices and interest rates, cancellation of the transaction fees of foreign currency exchange should not be neglected, since they led to the improvement of the internal trade and the investment flows. Finally, although the Euro zone does not include all its members, its creation, according to the author, stands for the greatest success, and for the greats risk ever taken in the EU.

The third chapter has great significance for the understanding of the functioning of EU, since it presents precisely the fiscal policy and the budget. The basic problems of this economic segment are the differences in the effective tax in countries members of the EU. Except for creating disturbance in the resource allocation, the existence of a large number of independent tax systems leads to the increase in administrative fees. This justifies the significance author gives to the tax system harmonization, although the adjustment of the tax polices gave some improvement. It should also be noted that the author considers the issue of budget, since there have been serious differences in views on the issue of fair allocation of financial resources between countries members of the EU. However, the author states that, except in the field of agriculture, the budget does not play significant role in the economic policy of the Union, and that it will not affect macroeconomic stabilization. Finally, he concludes that the budget id the subject to numerous transformations and that this will continue even after the expansion to East and the negotiations about new financial strategy for the period 2007-2013.

The fourth chapter presents the agricultural policy of the EU, where the author reminds us "that the agriculture is, especially in the continental Europe, the component of the social structure and of the deeply rooted way of life in the region which is prevailing thousands of years". He also says that it should not be surprising that together with the trade and competition, agriculture is one of the oldest economic fields of the integration. Back in 1957, Roman agreement assigned important role to the agriculture, which lead to the allocation of the large portions of the budget to this area. The goal of this policy was to protect the local producer and the policy was successful to some extent. However, when analyzed in larger scope – considering the implication of the agricultural policy on different social structures – this policy created some difficulties. That is why the author has mentioned the continuous efforts of the European leaders to reform the common agricultural policy, adding that it was never meant for complete cancellation. The pages dedicated to the agricultural sector Jovanović concludes with the note that "the external factors such as negotiations on the trade liberalization under the protection of the World Trade Organization, will continue to improve the reform of agricultural policy".

The competition, industrial and trade policy – are presented in the following three chapters, although they can be also taken as one chapter since the topics are interconnected. Although the developed and the developing countries have different views on the competition policy in the EU, the Union has extended its participation in this field, which affected the industrial policy. Furthermore, the basic goals of the industrial policy are strengthening of the competition ability on the international level, as well, as the strengthening of the productivity by research improvement, development and the reinforcement of the scientific and technological base. The influence of the EU on the world trade and the development of the trade policy from its beginnings, through standards and changes until present days, when EU represents the largest trade block in the world.

In the eighth chapter, the author presents the issue of the regional policy adding that the European goals influence the decrease in the development differences that is it leads to the adjustment of the life standards in the countries members of the EU. This should lead to the higher integrity of the local economies. More precisely, the attention given to the less developed regions and their need to lean on their own potentials with lesser financial support, the development of the small and medium business, innovation and coordination of other policies. Considering the restrictions of the EMU (European Monetary Union) in the field of monetary and budget policy, the lack of federal system for resource transfer, slower growth and smaller internal labour migration, the important moment for the regional policy is the expansion to East. In addition, the issue is not only for resources, but in their appropriate usage as well.

The ninth and the tenth chapter present the research on the factors of the mobility of production, capital and labour. The capital flow in the terms of the direct foreign investments is located in the centre of the Union – the exception is Spain due to the developed infrastructure and highly qualified and cheap labour. When discussing the labour migrations, it should be noted that its mobility within EU is low due to the social obstacles since Europe lacks cohesive elements in terms of common language, religion, customs, and due to the inadequate information of the working conditions. Also, the increase in the regional trade exchange due to the lower barriers, similar structure and similar development level of the countries members in the EU – lead to the additional decrease of the labour migrations. On the other hand, the author points out that the demographic stagnation in the Union could create the problem due to the undisturbed labour migration from the surrounding regions to EU.

Social, ecological and the transport policy are presented in the eleventh, twelfth and thirteenth chapter. These chapters are complementing each other, giving the conclusion and the specific significance to the book "European Economic Integration", especially since these policies are still developing.

The social policy of the EU is presented in the European Social Charter with the support of the European social fund. However, Miroslav Jovanović considers ESC (European Social Charter) as controversy issue since it represents the political base for creation of common labour legislation. In that, it signifies introduction of certain rules – general code of conduct -, which bring certain obligations, which is in contradiction with economic growth factors that is the flexibility of the labour market.

The ecological policy has increased significance. The issues relevant to this field are emerging from breech of the law, inadequate support as well as from the potential expansion of the EU. However, the important moment could be the global increase of the awareness of preservation of the clean and healthy environment since in that case the ecological programmes should, with certain expenses, gain from the energy savings, and through creation of new positions.

The policy of transport, according to the author, is slowly developing with the ambitious plans, followed with the lack of support from the national governments and the lack of the financial resources. The basic goal is high frequency with low effect on the environment and lower economic expenses. Further development of the functioning of the transportation systems wellhead to the open market and will enable companies to increase efficiency and competition.

Finally, the fourteenth chapter presents the current topic of expansion to East. The authors reminds us of the principles on which the European integration was based and which were important for the accepting the new members in the Union. However, he states that the EU has drastically changed since its beginnings thirty years ago and that its demands have grown. The author gives his support to the expansion and to the constitution of the Union, stating that it will take at least ten years for the consequences of the expansion to be overcome and that the price of the adjusting of the new members is still unknown. This conclusion is reinforced with the words of Miroslav Jovanović. "The expansion will not bring the efficiency or the growth, nor it will lead to the opening of the new positions, but that the basic goal of such policy is to give certain support to the countries and governments the Union is on good terms with in the process of reforms and general stabilization”.

To sum up, the significance of this book is in the creation of the detailed picture of the geneses of one complex process carried by the ambition of certain European leaders and their determination to overcome all problems, which leads to the logical conclusion that there is space for the improvement of the European integration. This evaluation of further development of the common European economic policy, when numerous institutions are supporting the integration seeking for new members, bases on the author’s attitude that the integration should rely on the Constitution of the Union. The reader can choose to agree or disagree with the views of Miroslav Jovanović, but that does not diminish the significance of this work, which inspires us to think productively about the complex issues of the European future.

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FINANCIAL MANAGEMENT – A PATH TO PROFIT MAXIMIZATION*

An essay on the book "Financial Management"
by Professor Mirko Kulić,
Megatrend University of Applied Sciences, 2004

Managing finances or financial management is indeed one of the most important business aspects. In the time of the great changes – in which we are living – there is increased necessity for knowledge from the field of financial management. Publishing book called "Financial management" by Professor Mirko Kulić, significantly eased research of one of the key topics in which is, as educational institution, involved Faculty of Business Studies of the Megatrend University in Belgrade.

Mirko Kulić is professor of the Faculty for Business Studies of Megatrend University. He had a number of responsible duties in the state institutions, business firms and the University. He was a representative in National Parliament of the Republic of Serbia, assistant financial minister, director of Administration of Public Revenues of Serbia and assistant minister of economy and property transformation. He shared his rich experience with readers of his books "Financial management" and "Financial markets", published by Megatrend University. He was frequently a member of expert groups for creating regulations in the fields of public revenues, privatization, and higher education.

At the beginning of this century, finances has been detached from economic sciences and has become particular scientific discipline involved in research of instruments, institutions and procedure aspects of capital market. Managers become aware of the fact that changes occurred, so they must adjust to them, and business, and company success and economy depend exclusively on their abilities and skills. It originated a need for new staff that will successfully respond to the challenges of outer world. Specialists for management of finances – financial managers, appeared as a response to this necessity.

* *Translated from Serbian by Jelena Batić.*

This books' significance is dual. From one side, it provides students with necessary knowledge in financial area, and from the other side, those among them – who will become decision makers – will successfully prepare themselves for executive duties in financial section.

Concept called "financial management" is a base of functioning of the company, and its business leans on the application of so-called financial models. A book "Financial management" originated because of authors' wish to present students and all interested people financially oriented questions in their best way. Author gives balanced treatment of theoretical and practical aspects. In numerous cases, the examples accompany the theory, so this is the closest way for the reader to accept the matter.

We must emphasize that Professor Kulić wrote this book in accordance with the world standards of financial management, and it was not an easy task in domestic conditions of poorly developed financial markets and adverse financial and investment climate. A goal of financial management is to provide a base for creating healthy decisions in financial sector. This goal is compatible with a goal of this book, thus author himself emphasizes "... to explain how company gathers means, allocate them and how financial decisions influence creation of values".

Author introduces readers with the content of the book through its preface, in which he defines basic notions, and through its four comprehensive parts.

Introduction of the book is not a bare bunch of heterogenic texts, but encompassed integer of bases of financial management, which strictly and precisely, and with paying attention that this is a textbook in first, introduces even a layman into financial matter. It is easy comprehensible and, if ever any dilemma existed related to matter noticed, will be solved even after reading of this introduction.

Author observes financial management from two sides – as scientific discipline and as corporate function. "As financial discipline, financial management involves theory and methodology of managing cash flows in the company", while "as corporate function it comprehends activities related to acquisition, financing and managing property, according to the basic business goal". Next, author defines subject, method of financial management, enters financial notion into process of reproduction, defines financial system and brings us to corporate financial goals.

Author divides financial goals onto one main and few minor. Main one is widely known, for sure, but it is not a pity mentioning it again, with insight to its significance – and it is profit maximization. This goal is realized through three decisions: decision on investing, on financing and on dividends and sustained profit. Minor financial goals are maximization of long-term net income and empowering financial strength.

Financing goals represent fundamental goals of the company. No profit, no growth and development, and with no profit and development there is no future. Decisions on financial management relate to goals, and of course, here we must mention even most important one – to invest or to pay dividends. This is eternal confrontation of interests of shareholders and management in a stock company. Decisions on financial management are very complex and, to be valuable, great deal of external factors must be tracked, and it is all only to acquire above-mentioned goals. Previous presented in a book gives us solid base for forecast and planning, so Professor Kulić leads us into notions: planned balance sheet, profit and loss statement and cash flow plan. To know financial theory always leads to good financial projections, predicting, planning and, in the end, practice – is message that author wants to tell us in this book.

It is interesting that this general part of the book represents unique textbook of basic financial management, because it really involves almost all notions needed to acquire basic knowledge threshold that is necessary for deeper understanding and research of problems within this area.

In the first part of the book – Tax system and tax policy – the author explains tax system according to changes in the tax legislation. Although taxes are strictly defined by legislation so this chapter goes into the area of law, the author made an effort to simplify the matter for readers who might not be acquainted with legal terminology. Tax system, tax policy, tax classification, basic tax elements, and tax categories, are only few of the notions which author defines in this chapter, and uses them to explain – actual in our country – Value Added Tax. What type of VAT is in function in Serbia, what is the object of taxation, what is the base line and which are tax benefits possible, you will find out if you read the first part of the book – Tax system and tax policy.

The second part of the book is involved in problems of financial markets. Considering that professor Kulić is also the author of a book titled "Financial markets", this part of "Financial management" represents sublimate of the most important questions which the author considered necessary to find place in this book. Of course, if it is not enough for the reader, he can find additional in the book titled "Financial markets". The author talks about the notion, characteristics, elements, institutions and types of financial markets in this part of the book. Financial markets are relevant factor of financial system, and if some part of financial market does not function well, entire market stays undeveloped.

The third part of the book is the longest and it involves corporate finance problems. Financing is dynamic process by which we provide necessary means for company functioning. In the third part of the book, the author leads us to basic principles, types, concepts and rules of financing. This part is enriched with numerous formulas and indicators that present clearly the matter that author wants us to know. All exhibited coefficients serve for efficient creation and measurement of profitability, liquidity, safety, independence and financing elasticity. There is one more relevant aspect of financing: financing rules that serve to "show the way in which company should search the most appropriate solution". Even in this case, each of the rules is followed by graphic explanation or formula, which helps reader to recognize the matter. Accepting modern principles of financing, author teaches readers which ways to track for successful financing and to acquire financial goals. The last module in this part of the book approaches the present and the future of financing, i.e., it correlates the value of money today and in the future.

After basic notions, author leads us to modalities of financing. He gives us possibility of choice between short-term, mid-terms and long-term, that depends on resources that have to be financed, and on characteristics of company itself.

By orientation to short-term financing, author gives us a possibility of insured and uninsured financing. In case of possessing resources for insurance, we have suppliers loans, crediting by marked off timing and short-term uninsured loan on money market. In case of not possessing any resources for insurance, we can use financing by factoring, by Lombard loan or by loans on current accounts.

Mid-term financing offers longer terms of payment, and in that case, author suggests mid-term loans as follows: bank loans, revolving loans, mortgage loans, insurance company's loans and mid-term loans from equipment producers, leasing and franchise financing.

The last and the most stable financing possibility is long-term one. It is exerted by issuing of stocks, debentures, options, warranties and by long-term loans. In this part of the book, author gives detailed description of all already mentioned securities. Alongside with description of financing modalities, author indicates benefits and limitations of this way of financing, costs, and informs us about saving using each sort of financing.

While in this part of the book the author talks about external sources of financing, in the next part of the book he explains internal financing sources. Professor Kulić here offers three ways of financing: from income, financing from financial reserves – opened and hidden ones, and financing out of depreciation.

The last chapter of the third part of the book explains basic principles of maintenance of optimal solvency, defines causes and gives criteria for choosing measures of solvency policy. The last, fourth part of the book leads reader into financial reports and informational base for identification of financial position of a company.

We are firmly assured that the book "Financial management" will find its place in the libraries for students and various professionals, for ones to learn, and for the others to remind.

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ETHICAL GLOBALISATION OF THE WORLD*

An essay on the book titled "Introduction to Business Ethics" (second edition)
by Professor Smilja Rakas
Megatrend University of Applied Sciences, Belgrade, 2005

In the present conditions of global multiculturalism and expansive demographic mobility, it is difficult to imagine a corporate type of behaviour not founded on the main ethical principles, defined and created within the boundaries of business ethics. The monograph "Ethical Globalisation of the World" by professor Smilja Rakas, PhD, deals with a new scientific discipline, business ethics, which is to expect to become a science of the future.

Smilja Rakas, PhD, is an associate professor at the Faculty of Business Studies at Megatrend University. She is the author of the textbook "Sociology of Management" and one of the co-authors and editors of the chrestomathy "Sociology of Management". She is a lecturer in the subjects Sociology of Management and Business ethics. In her long career, she has been an eminent professor of Sociology, Business Sociology, Psychology of Clothing, and Business Communications. She got her first degree at the Faculty of Political Sciences in Belgrade, where she acquired a master's, and finally a doctor's degree. She has published more than thirty professional and scientific journals. She has participated in many national and international professional congresses, as well as part of many scientific team research projects.

Solving all uncertainties, conflicts, and critical situations that occur in business and communication among people is hard to imagine with no business ethics or ethical principles. It has placed business ethics among top business topics and certainly justified the necessity of studious investigation into this issue, which is the subject of interest of professor Rakas, and in this part, she introduces her readers with the main principles of business ethics.

The second edition of the monograph "Introduction to Business Ethics" consists of two topic units: the first one relates to the general categories of mora-

* *Translated from Serbian by Maša Stojičić.*

lity and main categories of ethics as the philosophical science of morality, which makes it possible to get familiar with the fundamentals of business ethics and to understand it. The second part of the book deals with concrete, essential issues of business ethics, since its beginning, then their field of study, to the current problems in contemporary society. This is how the second edition encompasses actual issues and issues of business ethics in contemporary society, relating to globalization and business morality, as well as to informational ethics.

The first chapter, taken from the first edition of the book – 'Morality as Social Phenomenon' – is fully justified, for it introduces the reader in a concise and in addition, succinct way to the basics of this philosophy discipline, without which it is hard to imagine further advancement or comprehension of the issue. In this chapter, the author discusses the social side of morality, the main characteristics of morality and the influence of economic process on morality.

Professor Rakas emphasizes that, despite different interpretations of morality, depending on the scientific approach and definition, the common thing for all the interpretations is that morality is "a set of norms defining people's behaviour in the society, towards other members of their society, and themselves". The idea that morality is as old as the human society makes sense. As all phenomena evolve in time, moral norms have also been changing and adjusting to contemporary sets of values. What is timeless is that human behaviour has always been approved or condemned. As social relations were differentiated on different stages of social development, as well as within different social groups, moral norms in them also differentiated. The origin of morality lies in the very human society and humans themselves. As the author points out, "only in society, individuals build self-awareness, an awareness of values and ideals…"

If the question of what characterizes morality in brief is raised, we can answer it is social rules (i.e. moral norms) based on the concepts of good and evil. Good is one of the most important categories of ethics and it involves social progress or anything that suits people's interests and affects the growth of their powers and competence. The opposite category to the evil is good, which is an ethical category associated with immoral behaviour, opposed to moral requirements and therefore worth disapproval.

Another very important category in ethics is moral assessment, which involves assessment of our own behaviour, behaviour of other people and other social groups, in relation to moral norms. Moral judgment can also be positive or negative, and it is necessary in the process of judging actions and therefore moral responsibility.

Violating moral norms results in moral sanctions, which is also one of the crucial segments of ethics. Unlike legal sanctions, prescribed by legislators, moral sanctions can be intrinsic or personal and they are manifested through pang of conscience, as authoritative disposition that warns and punishes own behaviour, but also morally judge other people's behaviour. Social groups implement extrinsic or social moral sanctions and they are implicit in the break of contact with the moral offender.

As human practical moral life is indirectly associated with material conditions they live and create in, it is obvious how important the influence of economics on morality is. Trying to touch on this comprehensive and exhaustive issue from the historical point of view, professor Rakas in this chapter refers to the leading authorities in economics , who were concerned with ethical issues, such as Emil Dirkem, George Sorrel, Karl Marx, Max Webber, Francis Fukuyama and Adam Smith.

This chapter also answers one of the basic questions, which is how property and work influence morality. The framework of human attitude towards work depends on the most important values of life. In other words, if morality considers work to be the ultimate value, then people are inclined to the economic system that implements those values in the best way.

The second chapter of the monograph, 'Work Ethic as a Form of Morality', discusses the following topics: verbal definition of work ethic, motivation for work and work morality, work morality standards and personality, and work morality.

Looking back on the first moral postulates that favoured the truth over lies and domination of business morality over immorality (converted to well-known maxims *do not think evil to the other, do not cheat, do not use half-truths, be righteous* and so on), we see that various types of regulations and sanctions did not remotely give the expected results. An increase in the use of norms has led to an increased number of those who do not respect them.

That is why the author places great weight on this delicate issue and concludes that the society in general sets up moral demands that suit general understanding of the importance and function of work. All participants in work have different attitudes towards these imposed requirements, which can be motivating (if they are perceived as intrinsic obligation) or forceful, when they have negative approach towards them. Approach to work is also determined by personality traits, human relationships, and type of control, mangers, and management.

Ethics as the study of morality is the subject matter of the third chapter of this book. There, the reader can inform himself about the main terms of ethics, the word origin, field of study, and finally, the main scientific approach to ethics through a short review of the historic development of ethical ideas and the relation between normative ethics and morality. Successfully leading the reader through numerous principles of morality, (humanism, meliorism, voluntarism, fatalism, hedonism, utilitarianism …are just some of them), taking care of their chronological order, the author emphasizes that most of these principles make the starting point for defining the main, general or universal principles or values.

The key point is that the base for all business activities lies exactly in respect for the main human values. In brief, "ethics is a philosophy of natural and historic values of an individual in relation to the others, a created image of their habits, customs, and moral character". In accordance with the contemporary business practice, respecting cultural diversity, the values, norms, and criteria important for business ethics should be normatively modelled.

In the fourth chapter of "Business Ethics", Prof. Rakas discusses the following issue: formation and development of business ethics, the subject matter of business ethics, business responsibility and ethics, the importance of corporate culture for business ethics, the influence of business ethics on business communication, ethical norms and rules of professional behaviour and ethical dilemmas and doubts. Prof. Rakas goes into of the heart of the problem emphasizing the importance and vital role of business ethics in solving everyday ethic dilemmas that occur in business communication and encounter with business people. Business ethics is becoming scientific discipline hard to avoid in doing successful and profitable business.

The most frequent questions from the field of ethical business are certainly these: are there the same moral norms in business and common life? Does business allow us to observe morality and honesty less strictly than usual, in the struggle for success and survival? Shall we be forgiven in the moral sense if we do in our work something, which is normally considered an unjust move, trying to make a business deal?

Professor Rakas chooses an original method to answer this and similar life-concerning issues. Distinguishing authentic events from many sources, she manages to provoke interest for the subject matter and at the same time to encourage the reader to think. Avoiding tedious listing of facts and using real situations, she gives the reader a task to find solutions in extremely delicate situations, to understand all the seriousness of final decisions , as well as to face hypothetically created consequences. This move of the author is brave, audacious and ought to be praised.

The growth of business ethics was happening simultaneously with current social phenomena. New civilization changes, cultural differences, clash of interest, increased number of conflicts in economy, political conflicts over global domination, led to lower moral values of standards. Such situation has raised the issue of morality and ethics in business and direct practice of business – ethical behaviour. Beginning with dehumanization of workforce, through the pollution of the environment, corruption, social problems, and other social deviations since the fifties, to the ecological crisis today, all these phenomena serve as an open reminder and warning of the seriousness of the issue and necessity of high social consciousness.

A new concept of business behaviour bases upon respect and interest for others and it starts from the fulfilment of general social interests. It means that the idea of traditional materialistic concept of business ethics directed only towards the creation of profit and personal interest has been overcome. Many examples have proved that one cannot allow or award non-ethical behaviour. This is in contrast to the belief of neoclassical economics theoreticians who claim that motivation led by personal interest is moral.

Business ethics has arisen from the relationship between economics and morality, an analysis of moral status of economic actions in practice and moral characteristics of market relations, typical for an economy where private property and wide economic freedom have large importance. The subject matter of business ethics is where moral criterion (honesty, justice, trust, rights and duties or anything that can be defined as *good* or *right* in the moral sense) and criterion of economic efficacy (benefit, profit, cost, prices, efficacy and competition) and meet. "Where ethics do not dominate, instinct, passion, – absence of conscience or inhumanity do. Where there is more and more ethics, there is less and less law, sanction, rules, norms and vice versa."

Not only highly developed countries, but also countries in transition that are yet to build their set of values, with Serbia among them, are more concerned with the issues of business ethics. Serbian economy is facing a difficult task of how to increase competition, without which degradation is simply faster.

It is exactly this business ethics to show us the unavoidable first step to adjust to the advanced standards. Ethical business, speaking metaphorically, is like a link in a chain that is impossible to do without, for when it is missing, "breakdown" spreads fast all over the system and finally blocks it. Implementation of controlling business ethics in corporate business in Serbia is the main prerequisite for building socially responsible business environment. That is another reason to support and emphasize the effort made by professor Rakas while preparing this monograph, as one of the first books on scientific discipline, which is yet to start conquering this area and therefore be the main textbook for knowledge acquirement that will be necessary for business communication in the future.

One of the current questions of business ethics that goes into the field of responsibility is whether it is possible to act ethically and simultaneously achieve high business performance. That is why it is highly important to follow ethical codes of behaviour that bring success to the company, as well as to respect the manager's personality, their views and values, which influence staff's behaviour. The basis of any kind of responsibility is implicit in the readiness of the whole company or individuals to accept responsibility for a failure or mistake.

Controlling business ethics can bring significant benefit to companies. Ethic programmes contained in the so-called corporate culture help keep moral standards in key moments, strengthen team spirit, motivate employees, and enable to promote a positive image of the institution in public. Corporate culture is reflected in the company ethics based on values and norms that oblige the staff to accept them and play by them, identity of the company(intrinsic picture of own existence, as well as introduction made with concern to the outside environment, image), and organisational atmosphere, i.e. interaction between an individual and organisation. Companies have to define corporate culture clearly and precisely and to play by it and use it in practice.

An unavoidable segment of business culture is business communication. "It is necessary to know, accept and respect all the important elements, characteristics and specific details related to all the participants in business communication in order to enable the application of ethic rules in oral or written business communication", professor Rakas points out.

A progressive development of information technology enables a familiarity with and respect for other cultures, which greatly affects the success rate of total business process, as well as ethical behaviour. What it is like in practice, we find out from many examples that the author uses to explain specific business cultures of America, Japan, the Arab world, among American Indians, and it places great value to diversity in Europe. What all business contacts have in common is that everyone has to respect ethnic and religious diversity; it is necessary to be familiar with the history and culture of the country we cooperate with, and to respect its customs and manners. It is the only way of doing successful business in multicultural conditions.

Temptations, dilemmas, hesitation… Everyday phenomena that people meet in business environment (corruption, clash of interest, espionage, nepotism, etc.), are phenomena that exclude market competition, decrease it, and lead to retardation. A misuse of the institutional resources, revealing business secrets and inappropriate behaviour during working hours are indicators of low level of employee's morality. Ethic codes regulate such phenomena. The higher are the ethic standards of an organisation, the higher is its profitability.

The last chapter, discussing the issues of globalisation and business morality, information ethics, deals with the most recent problems of business ethics in the contemporary society. With global world associations, distinct differences and opposites, we can raise the question: is it possible to establish global ethical values? That is another question implicating an answer that developing business conscience is extremely important. Therefore, efforts to create ethical standards that could satisfy ethics, as an eternal philosophical discipline. Globalisation has created new opportunities for companies, but at the same time, it has increased their organizational complexity, whereas exposure of business activities on other markets has led to a higher responsibility on a global scale.

In this millennium, people have to found a new set of values that would be, unlike the previous one, intelligence, knowledge, information, ideas and communication skills… A prerequisite for business in this millennium is certainly a development of information society that will have a developed computer-communication infrastructure available to everyone. A developed information infrastructure enables necessary new forms of communication and cooperation despite physical and/or time distance of two or more sides. Building such infrastructure does not only make it possible to achieve social goals, but it also enables higher quality of living.

Uniting two units in one place, joining classical views on morality with contemporary ones, Prof. Rakas successfully wrote an excellent textbook for postgraduate students of Megatrend University, as well as other higher education institutions, but at the same time – a useful reminder for experienced managers. What is a special value of this book is an original methodological approach, the use of case study, which at the same time increases contemporary ethical problems in business in a unique, descriptive, and modern way. No doubt, Prof. Rakas has managed to put some touch of reality on the extremely sensitive academic issues of business ethics and to actualise the subject that still does not get the attention it deserves in this part of the world.

We hope that this book will initiate the implementation process of business ethics management in Serbian firms as a main precondition for building responsible business environment. Contemporary moral imperative transcends capital egoism; new ethics are not utilitarian any more, they express a new level of universalism. The moment we start thinking of personal ethical standards and actions encouraged by reading this book, when we are capable of anticipating possible consequences, we can conclude we have high consciousness – consciousness of accepting responsibility, for not only the present but also for what still does not exist, what is to come in the future.

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‘Η ’ΑΡΕΤΉ ‘Η ’ΕΠΙΣΤΉΜΗ* •

An essay on the book “Economic History of the World Until 16th Century” by Professor Biljana Stojanović, Megatrend University of Applied Sciences, Belgrade, 2005

Introduction

Though economic history as particular subject in our country is defined in 1937, in scientific economic literature there were no any textbooks. This “textbook lack” is pretty decreased by the book “Economic history of the world until 16th century” from author PhD Biljana Stojanović, in Megatrend University edition.

Subject of economic history adds and connects knowledges of two basic sciences – history and economy. Besides, by researching historical events and economic processes within default period of human civilization, there are cause-effect relations established between historical development and development of economy. Professor Stojanović defines economic history as scientific discipline that researches development of economic events and whose basic task is to find causes of origins and evolution procedure of economic phenomenon. As author explains, in the difference to the history which responds the question “what happened”, economic history, before all, seems to provide an answer to question like “why something happened”. In the book which is in front of us, author, leaning on numerous, chosen resources, tends to create and explain mutual effects between economic development and wider circle of historical events, and shows origins of new centers of economically-political and cultural power within research of default period.

* *Translated from Serbian by Jelena Batić.*

• A virtue is knowledge (the thought assigned to the Greeck philosopher Socrates).

Description

Let's try, for beginning, to thematically show particular parts of the book. In introducing part of the study, PhD Biljana Stojanović explains origin and development of economic history as scientific discipline, enters us to a subject and significance of economic history and methodological postulates she was leaded with by writing this textbook. Characteristic seal on all of her reflections in this book came from postulate which lies in the base of all classical, historical and western systems of thinking. It is ethical law or postulate of the Good, which can be shown by thesis "Good is source of all that exists" – idea about Good as universal rule that shapes either Space, or man as a part of the Universe. Every human action is under this rule, including economic actions. In spite ethical principle of the Good is situated out and above time and all ideologies, a book "Economic history until 16th century" fairly engenders knowledges within economic history and sets them into objectively wider concept.

The 2nd chapter of the book brings us concise definitions of basic economic categories necessary for research of economic history. We are introducing the fact that 20th century – is a century of economy, in which economy develops more intensively than ever in the history of the mankind, in which is possible to overview the difference between economic growth, development and progress. It defines politically-economic and historical notions: economy and production, space and time (in economical history); it explains difference between geological and historical measuring of the time, analyzes population growth. By explaining socially-economical aspects of technological progress that, by the time, becomes one of the most important facts of the economic development, author of the book consequently warns that technology had even negative effects because it started to disturb balance of natural and biological systems, including human itself. In this chapter, we should carefully emphasize solved difference between three mutually and closely connected notions: inventions, innovations and diffusions of the new technology.

The 3rd chapter considers economy of primarily society in the period of savagery until appearance of the 1st epistle, by reconstructing development of economic life in pre-historical age according to archeological, anthropological, ethnological and linguistic knowledges and researches. Particular scientific benefit represents discovery of socioeconomic events in primarily society on the area of today's' Serbia. Author leads us into the secrets of the oldest civilizations in Europe from the period of mezolita, whose tracks are preserved on the location site Lepenski Vir. Existence of continual settlements of trapezium shaped base with plan of architecture construction and monumental plastics found on this site, discoveries unique in the world civilization, shows the fact that, in mentioned civilization, in 4th millennium there were complex socioeconomic relations. PhD Biljana Stojanović enters us to Starčevo and Vinča culture from the period of neolith, and then entirely shows socially-economical aspects in our areas from the Bronze Age to Roman Empire.

Economy of old out-European civilizations – China, India and Mesopotamia – picturesque, like in some historical atlas, is explained to us in the 4th chapter of this book. There author represents the biggest agricultural centers, trade and ocean sailing of Old East and explains cause and effect relation between tends from some countries to economic development, on one side, and development of socially-economical institutions and legislations, on the other, as well as relation between economic improvement and development of basic civilization acquisitions – Epistles, sciences and education. We are introducing socially-economic history of China from Paleolithic until fall of the Han dynasty; in the part dedicated to India – with formed caste system which is qualified specifically cultural-political and economic development and left a track even in today's India; afterwards, in the part dedicated to Mesopotamia, we meet civilizations of Sumerians and Babylon. On this place, author leads our attention to significance of Phoenician trade. Phoenician vendors and sailors ruled Mediterranean basin until deep into the Old century, and until they were repressed by vendors from disturbed banks of Ancient Greece.

Chapter 5th talks us about ancient European civilizations in period of slaveholding social order. In this chapter author Stojanović in first delimits institution of slavery from slaveholding as socially-economic system, and then describes social, economic and political background in slaveholding period. Here, we also have presentation of money stature, as one of the most significant economic phenomenon. It describes his economic and non-economic origin and evolution of monetary profiles – from primitive over malleable to contemporary money profiles. It emphasizes money as economic and legal category as well – in the shape of monetary unit and national currency, and that's why money is one of the most significant cultural phenomenons. Seals, inscriptions and faces on the coins and paper money tell us not only about the states and personalities who ordered money forge, as well as about language, historical events and art of the time in which money is issued. Author explains how these days' people looked at the money, silver and golden money in first, and elucidates reasons for crossing from the pensator to numerical payment in concrete historical circumstances.

As on the thematic map and time tape, great civilization centers of Aegean basin are presented, and author explains influence of oriental cultures onto Ancient Greek civilization. This study deepens our knowledge of conditions which defined differences between Greek Policies, explains development progress of goods-monetary economy and acquaints us with states that had been involved in nautical trade and had cultural domination in Aegean and Mediterranean basin. PhD Biljana Stojanović establishes and explains relation between nautical progressions, trade and handicraft, on one, and influence of goods-monetary economy on deepen of social contrarieties in Policies, on the other side, which leaded to gradual political changes and development of democracy in particular Policies – firstly in Athens. After we introduce ourselves with Ancient Greece money and occurrence of banking on the Delos, in the next part, we meet extremely picturesque and detailed expression of Macedonian state economy and Philip IIs` money and Alexander Macedonian and, after all, economic and monetary consequences of their conquests.

State and economic development in the Ancient Rome are processed in the way that, before all, there is a review of the most significant historical events, and then, population is described as well as Roman national order. Roman conquests and social-economic consequences of their conquering policies are analyzed with the highest possible attention. Author Stojanović emphasizes immoral cruelty and decadent character of slaveholding social order in Rome, putting him against human social order of the Ancient Greece. Development description of the most important branches of the Roman economy starts with agriculture, taking care of the fact that state was the basic source of fortune and agrarian production the most important economic activity. PhD Biljana Stojanović indicates significance of mining, developed by the Romans as particular economic branch. Mining was significant source of goods for the state or emperor – embodiment of Roman Empire. By the time, alongside with development of military and political power of the republic, or later empire, economic role of trade is growing. Even though Romans in comparison with other nations of the Old Age significantly improved their military and constructional technology, though they be quested numerous monumental works of ultimate artistic value to architecture and art of that time, they have shown themselves to Barbarians from an angle of monetary history, because they totally ruined one civilization acquisition like coins were. Deceptions and abatement on the weight and quality, coin vitiation and destruction – are questions which are especially elaborated in this part of the book. Not even monetary reformations of divers' emperors, especially Diocletian, didn't succeed to stop inflation that reached huge proportions during the 3rd century. From emperors` reformations we learn that he established an instrument of budget policy which is applied even today and by the same principles. This chapter ends with a description of monetary reformations of Constantine the Great, who ordered coinage of the most stable money in the world – solidus, and with analysis of causes of collapse of the Western Roman Empire. This analysis is truly interesting, instructive and very significant for our further thoughts of the time we live in – because, history is recurring and gives a chance to contemporary human to squeeze certain lore.

Special part of this chapter is dedicated to Slavic economy until 7th century. Referring last literature and resources, author represents us with historical facts about origin and Slavic motherland. Even "Slavic motherland is not precisely known", it is ascertained by modern researches, as author informs us, that pre-Slavic tribe called Veneti reached European continent from Little Asia and they populated almost all parts of Europe (except western Europe). Even about Slavic economy, author is leaning on the latest researches indicated in the literature.

Chapters 6th and 7th of this fictionally attractive and interesting study, lead us into economic development at the mediaeval period in Europe. PhD Stojanović rejects erroneous, prejudicially bundled assumption on Dark ages of the history of the mankind. The world of mediaeval human was not that much dreary, though some people think it even today. The Mid age didn't deposit in our collective memory not only fanatism of inquisition originated from some ecclesiastical circles, but technological progress and dynamic economic growth, especially from 10th century. Agriculture progressed, trade was developing, and goods-monetary economy was established progressively. In England, there was occurrence of national currency as legal category. Later, in the phase of developed feudalism, in Western Europe cities were formed, as well as international trade development, what influenced the change of agrarian relations, and leaded to almost total monetarization and creation of conditions for establishing banks and 1st financial markets. Within this chapter, Serbian state and economy are explained, with particular sensibility, in the period of early feudalism.

By presenting historical data in first, and mixing them with socially economical events and processes after, with application of integral scientific method, in the 7th chapter, PhD Biljana Stojanović tells about economic history of Byzantines. This chapter enlightens Byzantium Empire from politically-economical aspect in early Byzantium and Byzantium period. We track economic role and development of Byzantium state from its origin over feudalization and economic renaissance in 11th and 12th century, until disintegration and, finally, fall of Constantinople in 1453, when Byzantium disappeared from historical scene. Knowing cultural history, socially-political relations and economic development of Byzantium Empire is of the greatest significance not only for understanding of our culture, economy and culture, but for understanding development of European culture and civilization in general. Byzantium was the world power for centuries, official successor of the Roman empire and "biological" successor of cultural acquisitions of Ancient Greece. Byzantium golden solid represented world monetary standard for a long time. This is the significance of the 7th chapter, where precisely and vocationally evolution of Byzantium monetary system from 7th till 15th century is presented.

Particular value of this book is represented in 8th chapter, in which subject is economy and money development in Serbia from 12th till 16th century. By analyzing Serbian feudal social order in the time of Nemanjić and after death of Tsar Dušan in the period of tyrant, PhD Biljana Stojanović paints economic history of mediaeval Serbia. Until now, small number of works which interpret

Serbian economic history in this period is published, and it gives special significance and scientific value to this part of the book. Author leads us to Serbian mediaeval manor and socially-economical relations between basic social patches – squires, ecclesiastical dignitaries, and dependable population. Then, she leads us on the journey through the most significant cities and markets in Serbia at that time. We introduce basic economical branches – agriculture, cattle breeding, mining and handicraft, and also evolution of Serbian money from primitive (linen, cattle and measured silver) over coins to perper, which was fictious monetary unit. Adequate attention has been given to Serbian mediaeval legislation which regulated economic relation. The most significant members of the Dušan`s code, who were in charge of arrangement of economy and money, has been mentioned. PhD Stojanović finishes her analysis of economy of Mediaeval Serbia by expression of economic development at the time of despots Stefan Lazarević and Vuk Branković. Finally, we encounter admirable expression of mediaeval Serbian money.

Conclusion

"Economical history of the world until 16th century" represents 1st textbook of economical history in our country after few decades. Very ample subject represented by economical history of the world from primal society until developed feudalism is processed in detail in this book, and concise on 386 pages of the book which shows simplicity of expression and assurance of the facts. Continual and indisputable duty of historians is to critically overview historical sources and available literature. Thus, this study's scientific contribution is more than distinct and reliably puts PhD Biljana Stojanović in the line of the best Serbian economic historians of the modern era.

However, it would not be good to finish this description, but not to pay attention to educational or, precisely speaking, pedagogic value of the book. Textbook is receptive for all students; and we believe it will arise an interest of people who prefer live word, and it simultaneously will be the source of additional information for those curious. Picturesque expression, authors` fluent paragraphs and skillfully measured arguments make this book interesting even to these people who don't have any particular knowledge about history and economy.

When we read the last sentence and close the book, anyway, we feel a kind of uncertainty; our intellectual curiosity is satisfied, and simultaneously not: it is similar to feeling when our favorite series episode is over. Thus, according to the title of the book, we look forward to see its next part...

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33

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