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CONTENTS

8 June 1993

NOTICE TO READERS: An * indicates material not disseminated in electronic form.

INTER-EUROPEAN AFFAIRS

- * CSFR, Polish, Hungarian Economic Strategies Compared [Prague EKONOM 28 Apr] 1

CROATIA

- Defense Minister Susak Views Bosnia, Krajina [VECERNJI LIST 28 May] 4
- Prime Minister Valentic Views Economic Situation [VJESNIK 29-30 May] 8

CZECH REPUBLIC

- * Civic Movement's Road to Liberalism Scorned [TELEGRAF 5 May] 12
- * Dlouhy Accepts 'Purposeful Deficit' [HOSPODARSKE NOVINY 5 May] 13
- * Rychetsky Explains Errors in Slovak Coupon Handling [HOSPODARSKE NOVINY 6 May] 16

SLOVAKIA

- * Emilia Kovac Discusses Recent Visit to U.S. [SLOBODNY PIATOK 7 May] 19
- * Postemancipation State of Politics Sketched [SLOBODNY PIATOK 7 May] 21
- * Option of Early Elections Viewed by Parties 22
 - * Positive Consensus [PRAVDA 13 May] 22
 - * If Parliament Blocked [PRAVDA 14 May] 23
- * Ethnic History of Southern Slovakia Explored [LITERARNY TYZDENNIK 2 Apr] 24

YUGOSLAVIA

Federal

- Cosic Views Communism, Milosevic, Bosnian War [GAZETA WYBORCZA 5-6 Jun] 28
- Belgrade Stock Exchange Trading Falls [EKONOMSKA POLITIKA 26 Apr] 32
- Sanctions Stopping 'Money Laundering' [BORBA 12 May] 35
- Black Market Money Situation Discussed [POLITIKA 15 May] 36
- Court Decision on Jugoskandik Viewed [POLITIKA 15 May] 36
- Status of Collapsing Banks Discussed [POLITIKA 15 May] 37
- Data on Karic Bank Operations Given [EKONOMSKA POLITIKA 26 Apr] 38
- Yugoslav Businessmen Establish Firms Abroad [EKONOMSKA POLITIKA 26 Apr] 39
- Firms Awaiting Consumer Credit Approval [BORBA 12 May] 40
- Users of Primary Issue Money Discussed [POLITIKA 15 May] 41
- Savings Deposits Declining Due to Regulation [POLITIKA 13 May] 41
- Reasons for Shortage of Drugs Explained [EKONOMSKA POLITIKA 26 Apr] 43
- Misconduct in Food Sales Exposed [POLITIKA 11 May] 44

*** CSFR, Polish, Hungarian Economic Strategies Compared**

93CH0620B Prague EKONOM in Czech 28 Apr 93
pp 55-56

[Article by Ludek Urban, of the Institute of Economic Sciences of Charles University: "Attempt at Comparison—Privatization Strategies of the CSFR, Poland, and Hungary"]

[Text] *Privatization is generally accorded priority rank in the transformation of centrally managed economies. That involves not only the emergence of a functioning private sector but also the fundamental prerequisite of a pluralist political system. Those conclusions are accepted in all countries of Central and East Europe because they reflect their experience of the past few decades.*

In transforming their economic systems and privatization thus far, three countries have advanced the most: the former Czechoslovakia, Poland, and Hungary. Those countries very successfully carried out a so-called small privatization when, over a short period of time, the state sold small businesses, stores, apartments, and the like to individuals or their groups. By contrast, the so-called large privatization has turned out to be a much more complicated process, requiring more time. Yet the fate of hundreds and thousands of medium and large enterprises is of vital interest both for the economies of these countries and the future prospects of the transformation process.

The following will discuss the large privatization, compare conditions at the start, review the common and the specific features of large privatization in the three countries, briefly explain its course, and attempt an evaluation pointing out the open areas of that process in the individual countries.

Conditions at the Start

All three countries have inherited from the socialist period a sector of state enterprises that held a dominant position in the total productive economy, in employment, in investments, and in foreign trade. Poland began its transformation with more than 9,000 state enterprises representing 95 percent of industrial production. Leaving out agriculture, the private-sector's share in the entire economic activity was a mere 5 percent. While, in Hungary, remnants of the private sector survived in agriculture and services, roughly 90 percent of the economy was in the hands of the state; there approximately 2,200 state enterprises were dominant.

By contrast, in Czechoslovakia, more than in Poland and Hungary, virtually all forms of private enterprise had been eliminated. Before November 1989, there existed in Czechoslovakia roughly 4,800 large state enterprises, and the private sector survived solely in the form of illegal economic activity.

But the privatization strategy in its initial period was influenced by other factors, as well, which differed from

country to country. Of Czechoslovakia, one can say that, unlike Poland and Hungary, it was not that much burdened by foreign debt obligations. At the end of 1990, Czechoslovak foreign debt was only 4 percent of Hungary's and 1 percent of Poland's. That undoubtedly exerted influence on the Czechoslovak approach to large privatization. Then, too, there did not exist in Czechoslovakia a mass opposition force, which applies to Hungary as well but was different in Poland. The political scene did not include a force or group formed in the past era that would promote specific interests in matters of privatization. Those circumstances, along with the tradition of past economic development in the western part of the country, made it possible to formulate a strategy that many view as close to the concept of "people's capitalism."

In Hungary, the situation was very different. The burden of foreign debt compelled a search for ways to lure foreign capital to the country and, to a large extent, subordinate the privatization strategy to that goal. Large privatization in Hungary could also follow up organically on reforms started before 1989 (legislation on joint ventures was adopted as early as in 1972, the possibility of transferring state enterprises into corporations was conceded in 1988, and so on). Hungary began creating the conditions for fostering a "management culture" ahead of other countries. Together with a certain loosening of the rigid forms of central management after 1968, there was increasing latitude for more flexible decisionmaking on the enterprise level. Those circumstances opened the road in Hungary to so-called spontaneous privatization even before the laws on actual privatization were passed. Directors of state enterprises became initiators of those changes; they founded joint enterprises with Western firms. The room for foreign capital to enter large privatization was, from the start, considerably greater in Hungary.

The atmosphere surrounding large privatization in Poland was marked not only by the burden of foreign debt, thus a high degree of dependence of the transformation on the presence of foreign capital similar to that in Hungary, but also by circumstances hindering an influx of that capital. There were widespread fears that German capital would gain a dominant position in the Polish economy. But most important is the fact that, unlike in Czechoslovakia and Hungary, the working class in Poland organized in labor unions represents a strong and organized political force with experience in pressing its interests against the government. That social force made clear and continues to express its demand to be actively engaged in the ownership transformation. The Polish privatization strategy seeks to accommodate those demands by offering preferential treatment to employees of enterprises undergoing privatization and by a so-called general privatization making its results accessible to all Polish citizens.

The Chosen Strategy

In view of the specific obstacles to privatization, each country has chosen its own approach. Put briefly, the Hungarian privatization strategy has concentrated primarily on attracting foreign partners for direct investment in state enterprises. Czechoslovakia has focused on the distribution of state property by means of coupons. The Polish approach to privatization has emphasized engaging in the process, to a large extent, the managements and employees of the nationalized enterprises (in addition to other methods of privatization).

Hungary has attracted (according to data as of the end of 1991) more than half of all of the foreign capital invested in the three countries. For Hungary, that has meant not only an infusion of hard currency but also, and mainly, an infusion of Western technology, access to new markets thanks to new products, and a transfer of managerial experience.

In the Polish privatization of medium and large enterprises, the dominant form for now is of a so-called liquidation: The entire enterprise or part thereof are sold or leased to the former management or employees (sometimes to both). By the first half of 1992, roughly 80 percent of the privatization operations took the course of a liquidation that had been initiated from below either by the management or by employees. As of June 1992, over 1,000 of the 1,261 firms privatized in that manner passed into the hands of employees or managers. However, considering that, in the majority of cases, it involves leasing from the state for a five-year period, enterprises privatized in that manner remain essentially state enterprises. Other more radical methods of privatization have not made much progress in Poland.

Czechoslovakia has chosen a rather different and, in its way, original method of privatizing state enterprises. Despite the sizable share of foreign investments (investments worth 6 billion German marks in the Mlada Boleslav Skoda plant announced by Volkswagen are, in their size, the largest in the entire region), the principal breakthrough in the privatization of large enterprises has so far been achieved by coupon privatization. After investment funds joined the action, more than 8.5 million citizens participated in it.

The Course of Privatization

All three countries have set up government institutions on the ministerial level that are charged with keeping the privatization process under government control and preventing various forms of spontaneous privatization.

At first, there was widespread fear that the process would advance too rapidly and escape government control. Now it is the opposite view that predominates: that the process is moving too slowly (in all countries), that it is too bureaucratized (especially in Hungary), and that in Poland as well as in Hungary there are dire warnings of selling off state property to foreigners.

Individual countries had different responses to that situation. Toward the end of 1991, Hungary responded by a certain decentralization of decisionmaking on privatization projects. The concept of so-called self-privatization permits enterprise management to enter into, on its own, negotiations with potential buyers, without the direct supervision by a privatization authority (that involves enterprises with fewer than 300 employees and capital of less than 3.8 million forints). But the enterprise directors and their managements are duty-bound to request expert assistance from one of the 84 consulting firms approved for that purpose by the privatization authority. It is actually a controlled form of spontaneous privatization.

By the spring of 1992, of the original 404 state-owned companies proposed for that program, 266 were sold. Another round of that privatization began in April of last year and was expected to embrace a total of 300 enterprises, that time larger and employing up to 1,000 people.

The Hungarian Government has also established an Agency for State Property Administration, charged with managing groups of enterprises in which the state intends to keep the majority of the stock—in some cases, even the full 100 percent. In addition, there will be enterprises with the state as a minority shareholder, or with a so-called golden share.

The protracted government crisis in Poland that lasted from the fall of 1991 until the summer of 1992 had an adverse impact on the process of privatizing large enterprises and unquestionably left its mark on slowing its pace, for several reasons.

The first is the unresolved issue of restituting nationalized or confiscated properties. All Polish governments since 1990 resolutely opposed the demand for a general restitution of those properties. Arguments against it were, primarily of a financial nature. Then there was a fear that a lengthy investigation of property matters (difficult to clear up after the passage of 45 years) could completely halt or, in any event, put a brake on the privatization process.

Another reason is the indecisive handling of the issue of so-called general privatization, which represents the Polish form of free-of-charge handing over of part of the state property to all adult Polish citizens. That concept, announced in June 1991, was to include in its last version of March 1993 some 600 large state enterprises, turning out 25 percent of industrial production and employing up to 12 percent of the labor in that sector. The operation was supposed to engage 10 investment funds as corporations, initially state-owned, to administer those enterprises. The shares of those funds were to be sold to the public at a relatively low price. The share capital of the named 400 firms was to be distributed so that 60 percent would remain under the administration of the funds, the state would keep 30 percent for the time being, and the remaining 10 percent would be offered to

employees. But the problem became complicated because so-called general privatization presupposes the establishment and dependable functioning of branch investment funds, including their management bodies. That being a rather demanding task, the result is that privatization on that basis could start no sooner than in 1994.

In view of those circumstances and considering that the offering of shares of state enterprises through a stock exchange has not yet developed, as planned, the only viable privatization method in Poland thus far has turned out to be the aforementioned privatization by liquidation. To the extent that that method at the same time helps resolve the problem of enterprises facing bankruptcy, it can be useful also from the point of view of the desirable restructuring of Polish industry.

In Czechoslovakia, the situation is quite different. Even though there is a wider variety of methods being employed, and even when the flow of foreign capital into the country continues, coupon privatization remains the mainstay of the privatization process. Compared with the Polish general privatization, it has achieved more tangible results after its first round. Its advantages are seen in the relatively low costs; a comparatively fast pace (but that argument has recently become seriously questioned) in making it unnecessary, in contrast to both Hungary and Poland, to engage the costly services of Western consulting firms; and in having won public support because it offers participants a certain kind of positive expectation.

But many questions to which there are no unequivocal answers still hang over coupon privatization. Most concern the activities and future prospects of investment privatization funds, which have a large part of the privatization coupons at their disposal.

Results and Outlook

Three countries of Central and East Europe—the former Czechoslovakia, Hungary and Poland—find themselves

in unequal stages of privatizing large enterprises. It appears that Hungary has advanced the most, thanks to two circumstances: first, due to openness toward foreign investors, who have taken advantage of that offer, and second, thanks to a certain decentralization of the entire process, which gave greater powers to managements and increased their interest in it. But we must not leave unnoticed the fact that the extensive participation of foreign capital in privatization projects has come under critical fire in Hungary; it is that that approach has left enterprises facing a perilous financial situation in the hands of the state sector. In view of that, Hungary is also considering a kind of coupon privatization, which had been ruled out until now. About Czechoslovakia, one can say that it finds itself in a somewhat less mature stage because, despite the success of the first round of coupon privatization, its effects understandably have not become reflected in the conduct of the enterprises and cannot be forecast with any certainty. Of Poland, one can say that it has advanced probably least along the road of transforming the ownership status of large enterprises. (That is in no way altered by Polish data suggesting that at least 45 percent of the GDP is generated in the private sector, the mainstays of which, however, are for now agriculture and the service sector). But, in the opinion of many domestic experts, privatization of large state enterprises in that country is stagnating and evidently calls for new approaches to revive the entire privatization process.

An answer to the question about the immediate next outlook for large privatization in the three countries could be summarized as follows: In Hungary, further progress depends primarily on the success of decentralized self-privatization. In the Czech Republic and the Slovak Republic, on how fast the results of coupon privatization will change the motivation of the new economic subjects and to what extent that will influence the influx of new foreign capital. And, in Poland, the fate of large privatization is contingent primarily on whether it will be possible to find a consensus of the country's main political forces capable of overcoming the blind alley the privatization process in Poland has run into.

Defense Minister Susak Views Bosnia, Krajina

*AU0306163293 Zagreb VECERNJI LIST in
Serbo-Croatian 28 May 93 pp 4,5*

[Interview with Croatian Defense Minister Gojko Susak by Dunja Ujevic; place and date not given: "The Croats Are the Only Ones Who Have Been Saving Bosnia"]

[Text] When it appeared that international military intervention in Bosnia-Herzegovina was only a matter of a day, a Copernican turnabout took place—a conflict between Croats and Muslims broke out. Instead of a military attack on the Serbs, the international community threatened Croatia with sanctions. If intervention were in the interests of the Croats, how is it that they have in fact prevented it? If the Croats are carrying out ethnic cleansing, how is it that 200,000 Muslim refugees peacefully live in Croatia? Or, in view of all this, has Croatia not in fact made a wrong move toward Bosnia-Herzegovina? Is it at all normal that the Serbs should be pounding Dalmatian towns daily, or will someone finally say: This is enough.

We are discussing these issues with Gojko Susak, defense minister of the Republic of Croatia.

[Ujevic] Minister, the delegation of the Krajina Serbs the day before yesterday refused to come to Zagreb, making the continuation of the talks on the normalization of relations dependent upon the implementation of the agreement that you and Andrija Raseta [former general of the FRY Army] signed under the mediation of [Cyrus] Vance in January 1991. This agreement stipulates the end of hostilities and military activities of both sides, but at a time when the Yugoslav People's Army was present on virtually the entire territory of Croatia. What is your comment on this condition?

[Susak] This agreement was signed by myself and the Yugoslav People's Army. It was not signed by Croatia and the Serbian Krajina. The Yugoslav People's Army and the Yugoslavia that was a member of the United Nations no longer exist, and thus the Serbs cannot refer to this agreement. If this is the condition for negotiations, then there is nothing to be negotiated.

[Ujevic] The proposed agenda that the Serbs sent to Zagreb included the "question of exports and imports," and the "setting up of a tax-free zone in Zadar." This formulation implies the regulation of international relations, and yet it appears that our side has agreed to discuss this subject.

[Susak] When we were in New York, I offered as a gesture of goodwill the opening of the roads toward Sibenik and Zadar if they withdraw their heavy weapons. We are offering them this within the Republic of Croatia. As regards exports and imports, they must seek our consent for the import and export of goods because they cannot act as an international entity. A discussion on interstate issues is out of the question.

Concessions for Rifle Range

[Ujevic] The vice-chairman of the working group for the Croatian-Serbian negotiations in Geneva, Ambassador Arhens, has just stated that as regards the Geneva Agreement, the Serbs sought additional assurances and measures, which you and Mr. Lerotic approved. What have you approved?

[Susak] We are talking about minimal modifications to the agreement that we would withdraw our heavy weapons to areas from which they cannot be used against Obrovac, Benkovac, and Knin. They would withdraw their heavy weapons to areas from which they cannot be used against Karlovac, Sisak, Gospic, Sibenik, and Zadar. The bilateral withdrawal would be implemented within the 10 or 15 days envisaged for the implementation of Resolution 802. This is a gesture of goodwill. Nothing significant has been changed. Another modification, made in the agreement with the West, is that front line units would withdraw 100 meters, just far enough that they cannot see each other. We are therefore talking about the withdrawal to the rifle and not artillery range. This, too, does not change anything.

[Ujevic] Did the Serbs agree to that?

[Susak] I do not know. I said that this was acceptable to us.

[Ujevic] General Bobetko once said that he will return fire on Knin. Mr. Manolic said the other day that he will be drinking coffee in Knin by the end of the year. Will you also go to Knin, and at what price?

[Susak] No, for nothing, but this summer I will definitely be sitting in Drnis.

[Ujevic] There was a lot of arguing about the new defense law at the last assembly session. Without mentioning you personally, Mr. Boljkovac said in his commission that "willfulness by the top people in the Defense Ministry will not be tolerated at all." It was clear that he was referring to you. What prompted him to say this?

[Susak] I did not know that, and it does not deserve any comment. I know that he used two pages of one of his interviews to say that "we will not have emigrants head our intelligence and counter-intelligence services in the Army." Boljkovac used to be in the Department for the Protection of Constitutional Order and he must know that there is not a single emigrant there. But as I said, this is not worthy of comment.

[Ujevic] Even without Boljkovac, the fact is that a number of things mentioned in the discussion on this law could be understood as an allusion to the fact that there is a division in the Croatian Army on the "Croatian cadre" and the "newcomers from the Yugoslav People's Army." This could also be said of the "Croatian bloc."

[Susak] Neither is true. There is nothing abnormal about there being different strategic perceptions among officials from different "schools." However, it completely

illogical to claim that there are political implications to all this. For instance, General Praljak joined the Croatian Army as a civilian from, as you said, the "Croatian bloc." General Roso went through a foreign legion school. Then you have Bobetko on the third side. All three of them cooperate very well.

There Is No Crisis in HDZ

[Ujevic] Goreta is openly saying that those who came from the former Yugoslav Army got everything, while volunteers for the war hardly got anything.

[Susak] Goreta went to the war as a volunteer and came out of it disabled. He saw, for instance, that 1,000 officers from the former Yugoslav People's Army were promoted, and that the volunteers did not. Goreta must know that they are educated. For Goreta to use a gun, he needed them to instruct him. The fact that many of these professionals have not even seen the front changes nothing. We are doing everything for the Croatian volunteers to attain an appropriate status. Therefore, I understand Goreta, but what he is saying does not mean that there are differences in political views either. It is equally crazy to lump me in any one of these lobbies. Attempts were made to put me into the Herzegovina lobby, and when that failed, in the right wing. Yes, I am proud of my Herzegovina, but I have nothing to do with their platform.

[Ujevic] There are views that the "right" has increasingly been portrayed as profascist so as to make it easier, by suppressing the firm national stand, to implement a plan to draw Croatia into some kind of new Yugoslavia. When people talk about the right, do they also refer to you?

[Susak] No, Susak is not mentioned, or at least only rarely. Boljkovac has talked extensively to the press about this, but has not mentioned my name.

[Ujevic] This is also saying something.

[Susak] Not to me. There are no divisions in the Croatian Democratic Community that could cause any crises. There are some differences between individuals, but this is not difficult to understand. In the last three years, Croatia has had to take numerous unpopular measures, and I understand that some people took this very hard. Others, on the other hand, saw themselves in more important roles than they were given. These are the real causes of differences among individuals, but to say that the Croatian Democratic Community is experiencing significant rifts is simply a defamation that has been exploited to the full. If such differences did not exist, it would mean that the Croatian Democratic Community were a dictatorial, unhealthy party.

[Ujevic] Because of its policy toward Bosnia-Herzegovina, Croatia has found itself on the black list of the international community. She is being openly threatened with sanctions, which have in fact silently existed since the beginning of the war in Croatia.

[Susak] I would like to make some things about Herceg-Bosna clear. First, the bulk of Croats in Herceg-Bosnia consider themselves to be part of the Croatian entity. Second, the program of the Croatian Democratic Community explicitly refers to the care of the mother country for all Croats, wherever they are. The president of the republic proposed a loose confederation at the Yugoslav level, which would certainly have neutralized the war. Izetbegovic categorically rejected that, favoring a unitarian Yugoslavia. The war then broke out in Croatia.

The Croats in Herceg-Bosna were quiet, but thousands of them came to Croatia to fight as volunteers. By doing this they were not buying Croatia's obligation to them, because, as I have said, they consider themselves to be part of the Croatian entity, while Croatia holds itself responsible for the fate of all Croats. When the war in Croatia reached its current level, a war broke out in Bosnia-Herzegovina. The Croats, who drew lessons from Croatia's and from their own experience, asked the Government of Bosnia-Herzegovina to do something. It did not do anything.

[Ujevic] How could it have done anything when not even Mr. Izetbegovic knew who attacked his country?

[Susak] Precisely. But when the Serbs started to talk openly about breaking up Bosnia-Herzegovina, the Croats took part in the referendum and voted in favor of the unified state of Bosnia-Herzegovina. The world then proposed the Vance-Owen plan as a solution for that state, which the Croats under the current leadership accepted. After all, at the request of the Croats from Bosnia-Herzegovina, Croatia recognized Bosnia-Herzegovina.

When, after the Serbian invasion of Bosnia-Herzegovina, President Izetbegovic did not do anything, the Croats in Bosnia-Herzegovina started to organize themselves. Croatia supported them in that and will continue to support them, but is not asking anything more for them than it is asking for the other two nations in the country. After all, the first weapons that the Muslims received came through the Bosnian Croats.

Izetbegovic's Contradictions

[Ujevic] However, Izetbegovic signed the Vance-Owen plan under pressure, and this appears to have been the overture to the clashes between Croats and Muslims.

[Susak] Boban proposed to the cochairmen in New York that units of the Croatian Defense Council [HVO] in Bihac, Zenica, Tuzla, and Sarajevo, where the Muslims constitute a majority, place themselves under the command of the Army of Bosnia-Herzegovina, and that units of the Army of Bosnia-Herzegovina place themselves under HVO command in the regions where Croats are in the majority. The Army cannot function if it has two commands, neither militarily nor strategically. The irony is that there were no problems in Tuzla, where 8,000 Croatian troops were under the command of the Army of Bosnia-Herzegovina, but there were in Travnik and

Mostar, where the Croats are in the majority and where the Army of Bosnia-Herzegovina should be under HVO command. The Serbs had captured Mostar, but the HVO liberated it with hundreds of dead. And after that Alija Izetbegovic send a message to the world that the "Croats had attacked Mostar." The logic of this statement is that the Croats had attacked themselves.

[Ujevic] What is in fact Izetbegovic? According to the Constitution of Bosnia-Herzegovina, his presidential mandate expired last year.

[Susak] According to the Constitution of Bosnia-Herzegovina, his presidential mandate expired on 20 December 1992. However, at the request of the Croats he remained at the helm, even though this was not in line with the Constitution. He abused this gesture by the Croats and accused them of breaking up Bosnia-Herzegovina.

Consider this: In the Bosnia-Herzegovina delegation in New York, Boban was joined by Croat Mile Akmadzic, prime minister of Bosnia-Herzegovina. In the Muslim delegation, Foreign Minister Silajdzic said that he "represented the state delegation and that Akmadzic represented the Croats."

[Ujevic] The minister was therefore disowning his own prime minister?

[Susak] Correct. I wonder what his motive was and when Croatia was not consistent in the implementation of the policy toward Bosnia-Herzegovina.

[Ujevic] Does Bosnia still exist?

[Susak] A transitional period of the state still exists, but that will mean nothing. There is no Bosnia! Izetbegovic has to come out of a Sarajevo cellar and arrive in Zagreb to make statements. Where is his state then? Therefore, the Croats have had to create a protective, temporary organization until the final formulation of Bosnia-Herzegovina. After several hundreds of thousand of dead, the key question for Izetbegovic is naturally how present himself before the people and what to say to them. Therefore, he needs to blame someone. He has worked out that the best thing is to get from the Croats what he has lost to the Serbs. This is the essence of the problem.

[Ujevic] It would be impossible for the world not to see that.

[Susak] Of course it knows, but it is not opportune to admit it because the Muslims have officially been accepted as the victims. The Croats were not treated so even in Vukovar, because they were blamed for the break-up of Yugoslavia. The Croats are supposed to pay a price for what happened to the Muslims in Bosnia-Herzegovina. True, this is not stated openly, but everything that is being done is done according to this principle.

[Ujevic] Have the Croats committed any crimes in Bosnia?

[Susak] Crimes did take place in Vitez, and if the Croats have committed crimes they should be punished, severely punished. If this is to be done, there need to be certain institutions, at least the police and judiciary.

Croats as Invisible Victims

[Ujevic] What exactly happened in Konjic? The victims there are the Croats, and yet no one has seen them, unlike those at the Mostar heliport, the pictures of whom went around the world.

[Susak] According to the official data, about 2,000 Croats have already been detained in Konjic for 46 days. It is correct that no one has seen that. Not even the Red Cross has managed to get there. So nothing has happened. On the other hand, the Croats have been accused of carrying out some kind of ethnic cleansing in Mostar. As proof of that, they showed the heliport where the Croats were detaining Muslims while the fighting was going on, and where, after all, it was not that bad.

Regarding ethnic cleansing, the Serbs have expelled about 1 million Muslims from Bosnia, and all of them passed through Croatian territory in Bosnia-Herzegovina and through Croatia. All the weapons that have reached the Muslims have passed through those territories. There are 92,000 Muslims in the Travnik and Mostar provinces. There are about 200,000 in Croatia, including Izetbegovic's wife, who is making political speeches in Brac.

[Ujevic] "Boban's Croats" were also criticized by Zagreb church circles.

[Susak] My message to the church and civilian officials in Zagreb is to go there for a while. The local Croats there have always been supportive of the Croatian state, never asking anything for themselves. Once they have been there, and seen things, they should then criticize them, as well as encourage them.

[Ujevic] According to some analysts, the Vance-Owen plan for Bosnia-Herzegovina was devised to destabilize that country. The fact is that Boban made the first specific move from that plan during the time of Maslenica, by issuing orders that some units of the Army of Bosnia-Herzegovina place themselves under HVO command. This resulted in a clash and the opening of two parallel fronts.

[Susak] Boban's demand was the direct consequence of the New York agreement. It is correct that the clashes started at that time, and that they had escalated just a few days before the announced intervention. What a coincidence! Is it not absurd then to accuse Croatia of provoking the conflict that prevented the intervention which we were looking forward to.

[Ujevic] Who, in addition to the Serbs, is behind this clash on the Muslim side.

[Susak] Their units were infiltrated with people working for the Serbian services, and they are behind it.

[Ujevic] Have the Serbs taken advantage of fundamentalist, non-European Muslims.

[Susak] There is such a group, which is gaining in strength, particularly around Travnik and Zenica, but it is not dominant. If the leadership of the Army of Bosnia-Herzegovina pursued the policy which we agree on at the negotiating table, then this group would not matter.

[Ujevic] Is it then not correct to say that the Vance-Owen plan is not feasible, and that it can potentially destroy Bosnia?

[Susak] The conflict in Yugoslavia was what is going on in Bosnia-Herzegovina, but on a higher level. However, neither the Serbs nor the Croats, who have national identity, will ever agree to a unitary Bosnia. The Vance-Owen plan would not be a destabilizing factor only if it were implemented.

[Ujevic] The public is afraid that the Vance-Owen plan could remain in the game along with some foremost, invisible annexation. If some modifications to the plan were to be made, what would they amount to?

[Susak] If modifications were to take place, the furthest they could go would be that the provinces, as they are drawn, are formed as units. For the Croats this would mean the linking of Travnik and Mostar, which is positive because it would rationalize management. For the Muslims this could possibly mean connecting Zenica and Tuzla.

Control of Borders Equals Intervention

[Ujevic] What will happen with the corridor through the Sava basin region?

[Susak] As proposed, the corridor was a road under the control of the United Nations and the police, without the presence of the Army. In other words, the Army would have to withdraw to five kilometers on both sides of the road. Therefore, this is a transitional period until Bosnia-Herzegovina is set up as a state.

[Ujevic] Some people think that the plan of the five represents international capitulation in Bosnia, while others think that the plan still leaves some room for intervention. What is your view on this?

[Susak] If the West has decided to set up the control of the border between Serbia and Bosnia-Herzegovina, then this is equal to intervention from the air. This plan would have long-term effects in these circumstances.

[Ujevic] What if there were no effect?

[Susak] Then the international community would have totally failed. However, it is difficult for both Clinton and Europe to "sell" the idea of intervention, and I think that the Serbs will provoke them into carrying out

different types of action. The security zones for the Muslims are a pig in a poke. This is virtually the legitimization of ethnic cleansing, because, if the people are confined to several enclaves surrounded by fighting, they will flee from there, too. This is why this amounts practically to ethnic cleansing.

[Ujevic] A possibility of lifting the arms embargo against the Muslims is again viable. What kind of repercussions would this have for the Croats?

[Susak] This is totally unrealistic. How would this be carried out at all? I cannot see any other way but for someone to come to the Mostar market with weapons and shout: "Who is Muslim here and who is not?" This is nonsense.

[Ujevic] At one time you tied the chances of intervention to the fate of Sarajevo. What do you think today? Are there any chances for intervention?

[Susak] Air strikes are still an option. If this happens, it will happen because of the borders. This is why I take a positive view of the decision to control the Serbian-Bosnian border.

[Ujevic] Will sanctions be imposed on Croatia because of Bosnia?

[Susak] I do not consider this realistic. I think that these are only political pressures. After all, have we not had invisible sanctions since the beginning of the war in Croatia?

[Ujevic] And finally, let us return to our affairs. How long will we allow Zadar, Sibenik, and Biograd to be shelled?

[Susak] If this issue is not resolved during the next six-month mandate of UNPROFOR, we will resolve it ourselves. Of course, during the next mandate, the issues that UNPROFOR will have to deal with will be made very specific.

[Ujevic] And this will be the upper limit of our patience.

[Susak] Yes.

[Box, p 4]

The Extension of UNPROFOR Mandate

[Ujevic] UNPROFOR's temporary mandate expires in a month. During this mandate, the status quo has been preserved. Is the extension of the mandate a forgone conclusion?

[Susak] Ghali has proposed three options. The first is the retention of the status quo. The second is the redefinition of the mandate, which would envisage the use of force. We find this acceptable, even more acceptable than the third option, which envisages the withdrawal of the peace-keeping troops. The United Nations will most

probably propose a new six-month period, but everything that should be solved during this period must be properly regulated.

[Box, p 5]

Tudjman Has Not Been Dividing Bosnia

[Ujevic] It is said that Croatia has been inconsistent toward Bosnia because President Tudjman secretly discussed the division of Bosnia with Milosevic in Karadjordjevo, and Boban did the same when he secretly met Karadzic in Graz.

[Susak] Boban's meeting with Karadzic was no secret. Vance and Owen knew about it. Such meetings are normal in all wars. There is nothing to suggest that they discussed the division of Bosnia. When all the cards were on the table at the international talks, Boban was advocating equal status for all three peoples in Bosnia.

[Ujevic] So President Tudjman did not discuss the division of Bosnia with Milosevic, either?

[Susak] Such talks, which do not take the Muslims into account, could have not happened even theoretically. President Tudjman advocates an integral Bosnia-Herzegovina, because this is in the interests of the Croatian people. However, if this state ceases to exist, then we must protect the Croats, we must protect the Croats.

Prime Minister Valentic Views Economic Situation

AU0306132493 Zagreb VJESNIK in Serbo-Croatian 29-30 May 93 pp 8,9

[Interview with Nikica Valentic, Croatian prime minister, by Ivo Jakovljevic and Sanja Kapetanic; place and date not given: "Croatia Is Suffering Serious Economic Isolation"]

[Text] After a series of typical inaugural interviews, Prime Minister Nikica Valentic seems to have tried to move out of the limelight—according to the motto "few words and many deeds." Of those sixty days in the increasingly hot prime ministerial armchair, he is saying today:

[Valentic] When I took office, the situation was very difficult. Since I held a position in INA [Croatia's oil industry giant] where I was able to get a thorough vertical overview, I had no illusions, nor did I look for a plausible alibi. I entered the arena totally conscious of my slim chances. However, in those sixty days, the situation got so much worse, that now it seems to me that my first days in office were like coming to Switzerland, and that I am in a maelstrom at this moment. It came to the war in Bosnia-Herzegovina, the war situation got worse in Croatia...

[VJESNIK] It is now quite obvious that Croatia has been put under a sort of semiembargo—from the embargo on the export of cattle to cancellations of already approved credits.

[Valentic] It came to a complete political isolation of Croatia, and lately, even to open threats of sanctions, to a complete change in political relations with Serbia. And, although one should not be surprised by anything in politics, it almost came as a surprise, even to us professionals. Croatia is under serious economic isolation. The embargo on cattle exports is only the most obvious instance, but an even more difficult one is the cancellation of all approved credits. Or, the refusal of bank guarantees even at a dollar of credit to a dollar of deposit. Credit from the World Bank was already approved by the board of directors. However, it has been canceled.

[VJESNIK] How was that explained?

[Valentic] By Bosnia-Herzegovina. At first, they gave diplomatic explanations, but in their latest letters, they quite openly accuse us for the events in Bosnia-Herzegovina. However, Attali's latest letter also speaks about: "so, when we settle that, there is a question of the rights of the Serbs in Croatia, and then the human rights..." This is a diplomatic way of telling us to wait our turn. It is a great pressure on Croatia. Because an economically strong Croatia would become a subject in these parts, and, in big political games, this is, unfortunately, a geopolitical area for which there still are various combinations of reintegration. Turkey and Germany have been completely excluded from these events, which is very significant, because they are two important subjects of the interest group events in the Balkans.

[VJESNIK] Is there a chance of getting credit from some of those countries that are on our side, at least? Will Germany or Turkey dare jump out of the circle?

[Valentic] No. You see, it is politics. Germany helped Croatia the most and was much criticized because of that. They have their own problems with eastern Germany, where the events in the sphere of economy exceeded their most negative expectations by three to four times. Turkey approved a 100 million dollar credit, partly in financial means, partly in goods. Nevertheless, that is not the most important fact. For, the amount of credit from the World Bank, 125 million dollars, would not, on its own, overcome the crisis in Croatia. The problem is isolation. There are world financial police—the IMF and even the World Bank—who, by their behavior, give the green light to private capital and private banks. They are the controllers and, until they give the green light, there will be no serious inflow of capital. All the stories about the enormous capital which will come to Croatia are illusions. Croatia will have to rely on its own forces.

"Without Illusions of Reduced Inflation"

[VJESNIK] Are we approaching a war economy?

[Valentic] We are in a very difficult situation and we realize that we have to do everything on our own. We now know that, technically, we cannot do much before September. Until then, we should cover our exact economic problems. I am absolutely in favor of a complete market economy and complete privatization. I prefer market an economy with any inflation rate and the current negative tendencies, to a war economy that would have some effect at the moment, but would, in the long run, have enormously harmful consequences, and we would not get out of that situation for many years.

[VJESNIK] The government did not do that, but, according to some lobby talk, we were supposed to discuss freezing prices this morning (on Thursday).

[Valentic] That is nonsense. In order to introduce that model of shock therapy, we have to fulfill many conditions. To introduce this model today, would be like jumping with a parachute which does not open. Anyway, since something like that should be a surprise, if we decide to introduce a shock therapy, no one will know about it in advance. We have capable young people in the government. The problem is not in designing the model. The problem is in circumstances and in the model's implementation. We will implement the most acceptable model and, definitely, do everything to avoid a war economy.

My opinion is: we shall consider it a success if, in the present situation—by putting the legal system in order, privatization, strengthening financial discipline and the budget balance based on it, by restrictive monetary policy, and formulating the fiscal sphere—we do not enter hyperinflation before autumn and without entering war economy. However, we should not cherish illusions of being able to start reducing inflation.

I will very soon make an appearance in which I will try to explain the situation. We have refugees and displaced persons to feed, we have to make allocations for defense... You must understand, nothing can be achieved overnight. Even if we received a million dollar credit today, that would not be a solution. It will take six months to a year to make production function properly. Production is the basis, and it takes a certain period of time for that.

[VJESNIK] How long can Croatia, with its present economic potential, stand the measures of this semi-embargo or even some stricter sanctions?

[Valentic] My main goal is to work on preventing hyperinflation and to weather the next winter without queues, without freezing, without significant reductions, without food shortages... Therefore, the situation is not ideal. However, Croatia has strength, it has enough fuel, gas, food, and even electricity (with reductions) for a year. We are, therefore, not in an entirely bad, but also not in a great, situation. People must realize what it means when I say that my primary obligation is to make sure that Croatia does not collapse.

[VJESNIK] Does that mean that Croatia, even in depression, has the possibility to keep strengthening its defense forces?

[Valentic] Absolutely. That was also calculated. It is the main priority. But it requires certain sacrifice.

[VJESNIK] Have you got estimates of the damage caused by this semi-embargo?

[Valentic] It is hard to say. We will know more in about a month. The damage is certainly great, around 20 to 30 million German marks just from the cattle export embargo.

[VJESNIK] What are our foreign exchange reserves?

[Valentic] Over one billion dollars. We expect to enlarge them after the tourist season.

[VJESNIK] There have lately been rumors that, since you became prime minister, the amount of money in circulation has increased. How much money is there in circulation today?

[Valentic] This is not my jurisdiction, but exclusively the jurisdiction of the National Bank, which answers to its Council and the Parliament. I think that the amount of money in circulation did not increase. It is most evident from a relatively stabilized exchange rate of the dinar, which differs from the black market rate only by a few percent.

The problem is not in that, but in salaries. For, no matter how small they are, they are, unfortunately, often without material security. You see, the latest agreement with the trade unions will still enable a rise of salaries by 10 to 15 percent. From the macroeconomic viewpoint, it means stimulating inflation, and a minus to the program of stabilization.

"Unnecessary Spreading of Panic"

[VJESNIK] We heard rumors from the Promdei Bank that even new foreign currency deposits might turned be to the foreign exchange debt.

[Valentic] I do not want to comment on the business operations of banks, especially certain ones. I heard that too, and it is difficult to comment. I do not want to use big words, anything is possible. However, new foreign currency deposits are 100 percent covered by deposits abroad. There is no danger. We do not even block the old foreign currency deposits. We are releasing them through smaller cash payments, and through the purchase of stocks, apartments and now, we will probably go to the old foreign exchange market. Such news is, therefore, an unnecessary spreading of panic. According to my opinion, this is, at the moment, in the interest of some banks.

[VJESNIK] You also mentioned the budget deficit as one of the major problems. How big is it now?

[Valentic] We think it would be good if we manage to make it some ten percent, that is, about 200 to 300 million dollars. That would mostly depend on the war situation and on financial discipline. That means that we must cut down costs and rates, and increase collection of payment.

[VJESNIK] Multi-stage taxation is really too much.

[Valentic] Yes, but we have partially reduced it. From about 140 percent, we reduced it to approximately 110 percent. And we intend to keep reducing it.

[VJESNIK] When?

[Valentic] When we will make a severe blow. It is all very relative, but I do not have time. I do not have time to wait for six months.

[VJESNIK] Is it possible to introduce additional regional tax relief, e.g. for Dalmacia and other areas suffering from the war?

[Valentic] Absolutely. Regions where there is still war have to be helped and we are doing so. It is evident in the way of business operations of, say, the Bank of Split and the Bank of Slavonia. And as far as tax relief is concerned, they have often been abused due to our "imagination."

[VJESNIK] How do you interpret the fact that Slovenia, from being our main export-import partner, became an almost "second-rate" one?

[Valentic] Due to the relations in the structure of economy and currency relations, Croatia is simply not quite competitive in this situation. Today, we suggested an inter-Balkan agreement on payment operations, according to which we would make convertible currency payments.

[VJESNIK] In ever brisker discussions about denationalization, it is often stated that Croatia opted for money payments instead of returning property.

[Valentic] We have approached this problem seriously, and I can now only say that, as a rule, we will use the principle of limited money refunds. Something like in Hungary. We do not exclude the possibility of a few returns, but it is hard to draw the line here. This situation is perhaps best described by what happened to me in Split. On one side of the road I encountered demonstrators who had a sign—"You capitalist, give us back our apartments." And on the other side there was another group made up of tenants in nationalized apartments, who also demonstrated. I told them: "You see, this is democracy." In order to satisfy one group, you must deny the rights of the other. We will seriously attempt to prepare the solution and go to the Parliament. We will get into the problem, because this is an issue beyond comparison, but I do not want to cause any false sentiment.

"The Biggest Affair—Defrauding of Taxes"

[VJESNIK] As an advocate of total privatization, what do you think about the few tempestuous affairs that

happened lately and which, in a way, influenced the reputation of your government?

[Valentic] The process of privatization must not be stopped. Extremes should be eliminated, it is imperative to fight crime, especially in the field of tax policy.

And as far as affairs are concerned, what is the connection between our government and the Cementara [cement factory] affair? Stipe Mesic's daughter bought stocks six months ago. The "Croatia affair" had effects in the public just because there were some prominent people on the board of directors. In that whole matter, only one thing is important—treatment of insurance policies. If those policies were illegal, they are canceled, and if there is element of crime, and now it turns out to be minor, there will be a certain procedure. Dalibor Kovacevic [Croatia Insurance director] resigned just because he was tired of all that.

There are much bigger affairs. First of all, the question of unpaid taxes. On the streets of Zagreb there are, for example, many new expensive cars with Vukovar, Mostar, or Gospic license plates. It is tragic. I said to those people who sell their special rights for some 1000 German marks: would it not be better if the state collected taxes from those who really can afford such expensive cars, so that we could all benefit from that.

And regarding the selling of firms, I say that many of them are not even worth the amount they were sold for. This has to be objectified once. We have to put all stocks on the stock market. If they cannot be sold for 100 dinars, then they should be sold for less. And if they are not sold even then, it is better to give them to someone for one dinar, if they will do something with it, employ people and start production.

[VJESNIK] Let us return to the question of fighting crime on which, a month or two ago, your deputy Prime Minister Seks spoke so much. Now we hear almost nothing about it, so we get the impression that it was typical campaign propaganda.

[Valentic] What has happened in the past two months? We do not talk about crime, we are working against it. We will enter into the very heart of crime and those are moves that would be spectacular by European standards as well. I invite all businessmen to, first of all, pay taxes as arranged by law and they will not be disturbed by this government. And we will intervene in extreme cases, and there have been many. Take a look at the border with Bosnia-Herzegovina. In the beginning, trucks just crossed the border, got their papers, and turned around. Later on, they just came to the border to get the papers, and now those papers are stamped in Zagreb! I am consciously going to that battle, regardless of the many problems I am sure to encounter.

[VJESNIK] In conclusion, what is your economic concept for the normalization of relations between Croatia and Serbia, compared to, for example, with the concept of a kind of third Yugoslavia, the concept of which is becoming more and more present in the world?

[Valentic] No one can, actually, make an exact assessment, we have to have various combinations. I do not expect the normalization to happen in a few months. However, we are realistic economists, realistic politicians, and we are aware that we must live next to each other, and the sooner we realize that, the better. Now we are trying to re-integrate some economic elements, e.g. roads and oil pipelines, so that we can break the deadlock. However, it is not realistic to expect results soon, which is obvious from the recent behavior of the Serbian side.

[Box, p 8]

"Changes in Government—Matter of Circumstances"

[VJESNIK] There have been serious announcements in political lobbies that you will make a radical reconstruction of the government. But just a few days ago, the news about just one possible change leaked out.

[Valentic] It all depends on the evaluation of a situation. It is not irrelevant which team you will have in a certain situation. There are no significant changes for the time being.

[VJESNIK] There are still the news from the opposition that there are serious preparations for a coalition government.

[Valentic] Every opposition, even ours, wants power. We must not be hypocrites in this case. It is just the matter of circumstances and time. This is a very critical period for Croatia. My question is: do we have to make a coalition in this critical period? It is very difficult for me to give a decisive answer to that, at this moment. In case there is total war again—I would. However, if it does not come to that, we need to obey the rules of normal parliamentary democracy, so that the party which won the election can make up and lead the government on its own.

*** Civic Movement's Road to Liberalism Scorned**

93CH0642A Prague TELEGRAF in Czech
5 May 93 p 9

[Article by Emanuel Mandler, chairman of the Liberal Democratic Party: "Lamb's Guise and Liberalism"]

[Text] It seems that liberalism in our country is involved in another scandal. Of course, it is to be blamed on liberalism in quotation marks, but never mind, quite a few people will gladly or unwittingly overlook those quotation marks.

Playing the Liberal Chord

If we want to understand the current scandal, we cannot avoid returning to the time between 1991 and 1992, when Civic Forum began to fall apart. A more rational, more politically thinking majority, less burdened with a communist past (later the Civic Democratic Party or the Civic Democratic Alliance), began to separate from the minority. The fewer sympathizers the remnant (later the Civic Movement [OH]) garnered, the more of them were high state functionaries. Through them, it subsequently became tied up with old as well as new structures: whole crowds of reform communists, former communists, and those who began their political careers after November occupied positions in political and economic bodies with the intention of holding on to them. It was therefore necessary to find a political and organizational term that would unite those groups, a lamb's guise that would lead the activists themselves and public attention, too, away from thinking about powerful and well-paid positions and toward morally purest ideas.

Thus, liberalism became the lamb's guise of that revolutionary establishment. It was not entirely accidental.

The fast pace of events in eastern Europe is evidently responsible for the fact that the public of the Western democracies has not managed to break free of the old optical illusion, according to which communist reformers (Khrushchev, Dubcek, Gorbachev) and their supporters on the one side and political liberals on the other are the very same thing. And so many of our reform communists believed and continue to believe (not always insincerely) that they, too, are liberals. When some of them subsequently became part of the post-November revolutionary establishment, which, among other things, carried out the post-November reforms (hand in hand with such liberals as Dr. Calfa, Professor Cic, and many personalities with cover names in the agency records), they were amazingly only confirmed in their liberalism. Naturally, their activities had nothing in common with liberalism as such.

But OH had the great luck of having a partner exactly in a country that is of the greatest importance to us. The liberal German Foreign Minister Genscher evidently took such a liking to his Czech colleague Jiri Dienstbier that he not only displayed extraordinary favor toward him but also quickly built up his liberal image. May only

God judge the purity of the intentions of the German FDP [Free Democratic Party]; we mortals know that it began to turn OH into its Czech branch and that OH did not make the slightest protest against it. It went like clockwork.

Into the Dustbin of History

At its constituent congress in the spring of 1991, OH counted among its guests the German Foreign Minister and the NATO secretary general. On the eve of the election campaign a year later, the showing was not much less: At that time, it was Count Otto Lambsdorf who engaged himself mightily on behalf of the OH cause in his capacity of FDP chairman as well as chairman of the entire Liberal International. And what he had to say is worth noting:

"The Liberal International is greatly pleased to see OH developing into a genuine liberal party. OH stands for liberal values...is heir to the peaceful revolution of November 1989.

"Dear Jiri Dienstbier, as few other personalities, it is you who embodies the best traditions of your country.... Your work and your personal engagement are the best evidence that Czechoslovakia is an indispensable part of a united Europe. (...) The stronger OH will be after the elections, the better for your country, for Europe, and for liberalism." Clearly, there was an occasion for Europe to weep: The elections ended with the unprecedented defeat of OH, which failed to gain the required 5 percent and thus not a single deputy.

Few people doubt that most of the money spent by the Civic Movement on an extraordinarily costly election campaign came from Germany. It does not appear that that is something out of the ordinary, and certainly there is no need to look for something unlawful in it (such things are watched carefully by the liberal Friedrich Naumann Foundation). But the moral aspect of the tremendous German pre-election assistance to the Civic Movement is a different matter. Many objections undoubtedly came to the voter's mind and enabled him to understand that OH, a political representation of the revolutionary establishment, has nothing in common with the touted liberal values.

The enormous support by the Liberal International and the FDP ended up with the first scandal.

A Platform for OH

Before the elections, the Civic Movement applied for admission to the Liberal International. The Liberal Democratic Party [LDS] raised a protest. The Liberal International, whose chairman then was Otto Lambsdorf, subsequently suspended the LDS's current status of an observer and, in September of last year, admitted the Civic Movement as an observer. All of that suggested that neither the FDP nor OH would reconcile itself with the Dienstbier movement's disappearance from parliament. For it to return, a great many obstacles must be

overcome. OH is a weak party. OH is badly compromised in the public eye. Other parties and groups of the center want no truck with it. It has a large debt left from the parliament elections.

And so a small but marvelous ruse was concocted. OH will return to the political scene without a stigma. While again dressed in a lamb's guise of liberalism, it will not be its own but foreign. The action is sponsored by the Prague branch of the German liberal Friedrich Naumann Foundation (FNSt). Here is the gist of the ruse:

The Friedrich Naumann Foundation is very popular in the Czech lands, thanks to the currency it has available (marks). So it announces that henceforth it will not support any actions other than those approved by the so-called Liberal Platform—"You know, even in the FRG, money is short...." The Liberal Platform will be an association that will as quickly as possible transform itself into a political party. And lo and behold, that association will be founded by at least 50 "liberal" personalities (for instance: Lubos Dobrovsky, Ivan Gabal, Fedor Gal, Jan Krycer, Petr Pithart, and so on and so forth). Those personalities are to be selected so that OH supporters have a very dependable majority among them (that was done). Other parties can do with rather symbolic representation—for instance, the likes of the LDS for chairman and first vice chairman.

But one has to be on the safe side. First, it is necessary to subordinate the emerging association dependably to the Civic Movement. Therefore, the FNSt entrusts the entire action to Dr. L. Kinst, currently an OH secretary, as its employee. The money-starved OH finds it eminently acceptable if the Friedrich Naumann Foundation offers its (present) secretary a salary, an official car, and other equipment. (That the Liberal Platform might also become a vehicle for amortizing the OH election debt is something that is not talked about, but it is not unlikely).

Fifty personalities received an "initiative" letter from Dr. Kinst, urging them to join the Liberal Platform. Judging by the date it was written (15 January) and delivered to me (23 February), in my case they must have vacillated for quite a while whether I deserve such an honor at all. But ultimately they did not have the audacity to exclude the LDS chairman, and so I and the LDS vice chairman, Dr. Stindl, found ourselves among the chosen. To the "initiative" letter that thus came into my hands toward the end of February, I responded very negatively; the Kinst letter, with an enclosure listing those 50 addressees as well as my reply, I made public. So that marvelous ruse, too, has come to see the light of day.

Open Heavens

The considerable echo of that publication is turning not only against OH but also against the liberal Friedrich Naumann Foundation and German liberals in general. That is understandable. After all, they have gone too far in their contempt for the Czech natives. They insulted Czech groups professing liberalism, about whom they

took for absolute granted that they would eat out of the hands of German liberals, as well as the "native" voter. It would have to be assumed that the public is quite primitive in order to believe that those elegant pelts of the liberal lambs do not hide the seasoned warriors of the compromised Civic Movement.

But it seems that that second scandal is not enough. A third one is on the way. It grew dark and the liberal heaven opened up: The FNSt and OH are taking revenge. With reference to my disobedience, Dr. Kinst (OH!), acting on authorization from the German center of the foundation, canceled the study trip abroad of two LDS members that had been offered and sponsored by the FNSt itself at the beginning of the year. Another punishment is aimed at the Czech Democratic Initiative Foundation, with which the FNSt had held a conference on the Podyje national park (and promised in advance to cover the costs of that action, Dr. Kinst having publicly confirmed that at the very same conference). Because the Democratic Initiative Foundation also refused to join the Liberal Platform project, Dr. Kinst (OH!) retroactively, on behalf of the FNSt, canceled funding of that conference. Let the Znojmo entrepreneurs see what it means to trust liberals!

We will now leave it to the appropriate project officers of the FNSt in Bonn and Prague to plan in earnest which other groups of the Czech population will be punished in the coming days. From what has taken place, one can draw an unequivocal conclusion:

Should our liberalism in consequence of the actions of the FDP and the FNSt split into "German" (directed from abroad) and Czech, independent, Czech liberalism will evidently have a hard row to hoe to "make a living." Why not? For it will contribute to clarifying a rather unpleasant situation, in which imperial party interests are jumbled together with liberalism.

* Dlouhy Accepts 'Purposeful Deficit'

93CH0647B Prague HOSPODARSKE NOVINY in
Czech 5 May 93 p 9

[Interview with Vladimir Dlouhy, Czech minister of industry and trade and deputy chairman of the Civic Democratic Alliance, by Marcela Doleckova and Hana Havlingerova; place and date not given: "I Accept a Purposeful Budget Deficit"]

[Text] [HOSPODARSKE NOVINY] You hold the view that the tax burden on the enterprise sphere should be gradually reduced. Could you give us some specifics as to numbers and time?

[Dlouhy] We are beginning to make the first quantifications, and I believe the first serious debate awaits us during the preparation of the budget. The present tax and insurance laws were passed under a strong pressure of time and on the basis of materials that were prepared by a narrow group of people, mostly in the Ministry of Finance and the Ministry of Labor and Social Affairs.

That is a statement of fact, not a criticism. Other members of the government were overwhelmed by other tasks and problems. What kind of problem this is became clear only at the end of the year, and the tax rules were amended. At the same time, some political parties that aligned themselves with the idea of reducing the tax burden, came up with various concepts. The overall situation actually forced us to begin to think conceptually. The amendments, whose drafts were approved by the government, are therefore the result of a long-term view of the problem by various political parties and cooperation with the parliament. But we are still talking only about cosmetic changes, and I believe that the year 1994 will show whether the various parties will be able not just to talk about the tax problem—and here I am thinking about my own party as well—but also to put it into specifics, to incorporate the budget needs in the tax system on the one hand, and the general conditions for business on the other. I cannot tell you when the tax burden will be reduced or by how much. I simply do not know.

[HOSPODARSKE NOVINY] What you told me indicates that you object not to the system but, rather, to the rates.

[Dlouhy] The foundation building stones of the tax systems are correct. From my ministerial position, however, I see what the overall conditions for business are. In that respect, two important points occur to me. The first is to view the tax system not only as a whole but also as specific rates, particularly through the prism of the budget policy—that is, a balanced budget. That is the difference between the static and the dynamic view. From the standpoint of dynamics, I can imagine a budget policy directed in the first place at improving business conditions and stimulating entrepreneurship, and only in the second place at a balanced budget. Such a policy can lead in the long term to a balanced budget. The start-up of new business activities will bring more revenues even if the tax rate is lower.

Providing incentives to business by reducing the tax burden will lead to a decline in budget revenues at the very least temporarily.

[HOSPODARSKE NOVINY] Would you link such a development to an increase in indirect taxes?

[Dlouhy] Indirect taxes are a more subtle instrument, which the public may not even see, although it feels it. An indirect tax may even, if it is, for example, selectively applied to some commodities, maintain a balance between supply and demand for a certain commodity, a fact of which even the central planners were very well aware. Thus far, however, no one has come up in a broader discussion with a more radical position and not been afraid to say publicly that we want to change the Czech Republic from a country that is one of the states in Europe with heaviest taxation to a country where taxation will be rather on the below-average side.

[HOSPODARSKE NOVINY] So you do not rule out the construction of a deficit budget?

[Dlouhy] I do not rule it out, but, first, I am not the minister of finance, and, second, this is not a question that would cause dissension in the coalition. Nevertheless, I repeat that I would not rule out constructing a budget deficit.

[HOSPODARSKE NOVINY] Would you use the budget as an investment stimulus?

[Dlouhy] No. That could also be understood in the way that the budget should be an instrument of direct subsidies. Let us stay with the taxes, their linkage to the revenue side of the budget, and how to carry out the necessary tax reduction. We often hear requests for selective tax relief—relief for foreign investors, customs-duty relief, and so forth. I believe that, apart from relief from duty on the import of goods for production consumption and investments that are intended for the production of our export goods, and apart from some unimportant projects of strategic significance, there are no reasons for other selective actions. I would be in favor of an across-the-board tax reduction, even if it meant a short-term budget deficit. The deficit, of course, would have to be kept at a certain level. And, to identify that level, a good quantification is essential. Only on its basis could we hold discussions about the budget for next year or the following years.

[HOSPODARSKE NOVINY] Then, if the budget were to be used to stimulate the economy, according to you it would be possible only if it were to accept a lower tax burden on entrepreneurs.

[Dlouhy] The government should have the explicit policy not to burden the entrepreneurial sphere with taxes so much. The result, with which the government would have to come to terms, could be a deficit budget. There are, of course, limits to that, the greatest among them being the financing of a deficit budget. That is the first point. I would differentiate from it the active role of the budget on the expenditure side, where it can serve public investments. Naturally, such a procedure in a theoretical model has a multiplicative effect. But, in practice, we must ask whether such projects are available and whether criteria exist according to which a particular project could be contracted. The next problem is whether the state of our economy is such that either a domestic or a foreign enterprise, which would win the government contract, would really use public money equally effectively as a private entity that would obtain credit from a bank for an investment project in question. Simply, I still do not believe much in the stimulative and multiplicative effect of public expenditures.

[HOSPODARSKE NOVINY] Do you think that in one year the situation will improve?

[Dlouhy] I do not think so. I am really rather skeptical about expending large amounts from the budget on

public investments. I am a champion of commercialization and privatization of even those activities that today are considered to be in the public sector.

[HOSPODARSKE NOVINY] And what about loans from the World Bank, maybe for building roads or expressways? That is also a stimulus. Are you against it a priori....?

[Dlouhy] Well, first of all, we must correct the fable, entrenched especially here, that international banking institutions are something like a charitable institution. They are very uncharitable, and, in a number of cases, it is possible to find other banking institutions that would grant the credit in question more cheaply. But first, if we are talking about normal, standard credit financing, maybe of projects in infrastructure or others that serve the public good, I do not know why we should talk a priori about international institutions. Let us simply talk about the banking sector, where some of the banks were established by governments of certain countries in order to help economic development in a certain region of the world. Those banks, of course, for many reasons are not always able to offer better or more advantageous conditions. Rather, they help to establish criteria and assess the need for individual infrastructure projects, possibly to formulate energy policy, telecommunications policy, and so forth.

As far as specific financing is concerned, I have the feeling that we are making too many unnecessary distinctions. Simply, the state wants to build an expressway or Temelin. It contracts someone to do it, and someone builds it. Temelin is being built by CEZ [Czech Electric Power Plants], and CEZ is the basic guarantor to the state. From whom it will borrow the money, and under what conditions? That is its affair, although, in the CEZ case, it is more complicated because 27 percent of it is actually owned by the state.

[HOSPODARSKE NOVINY] Don't you think it is about time for the state to "meddle" in the foreign trade scenario, for example?

[Dlouhy] I shall try to formulate the basic postulates of Czech trade policy. We lost the markets of the former CEMA, now something in Slovakia, and there is a recession in West Europe, which means that demand from abroad is falling. In the first two months, there was a 10-percent drop in exports, which is not a very good sign. As far as our foreign trade policy is concerned, we must take into account what our position is within Europe, and, at the same time, all of Europe should realize that not only must its eastern part undergo a reform, but also that the EC itself must undergo profound economic reform. Either its industries will begin to move to where labor is less expensive and there are other comparative advantages, or it will create a new Iron Curtain of a protectionist nature. That means that the basic requirement is not only a reform in the East (that has begun, and, albeit painfully, it nevertheless is going ahead), but also a reform in the West—in a

direction toward greater liberalization, probably even more privatization, and far greater political courage in the face of rebellious and militant groups such as farmers, miners, metalworkers, and others.

[HOSPODARSKE NOVINY] You know that, but do they?

[Dlouhy] They know it very well, but, for political reasons, they are not ready to act accordingly. Visegrad is a mirror image of Brussels. If we were to follow the "Dienstbierian" idea, we would be playing into Brussels' hands: A new regional group would come into being, by which West Europe would become distinct from the Central and East Central ones. The postulates of our trade policy must be based on that consideration. First, liberalization yes. We must be able to open our own domestic markets, for one reason so that foreign competition would come and force our enterprises to become adaptable, and, for another, so that we could appeal for access to other markets on the basis of our liberalization. The other principle: Do not react to protectionism with protectionism, at least not immediately; use all other options. The third principle: In Visegrad Four, push only the liberalization of trade. Be firm and keep pushing negotiations toward specific measures.

[HOSPODARSKE NOVINY] You are formulating territorial trade policy on the basis of these principles?

[Dlouhy] In territorial trade policy, two things are at issue. One is general, which means that we do not have a totally clear proexport policy, a more active EGAP [Export Guarantee and Insurance Association], a much better information system, support for participation in trade fairs and exhibitions, and other things. The other side of the coin is a special trade policy in individual markets. For example, Russia. I can imagine, for one thing, more integrated coverage of the state through the embassy, even in cities outside of Moscow, and, naturally, in the republics of the former Soviet Union. Further, today it is basically impossible to export to Russia without long-term credits. That is problematic for us in view of the debts of the Russians, but they do not fail to pay only us; they owe the Paris Club and every country in West Europe. Nonetheless, those countries see some prospects there and are ready to somehow persist. In other words, in Russia a more specific government policy is needed, one that is not afraid of a short-term lack of success.

[HOSPODARSKE NOVINY] Obviously you had a change of opinion.

[Dlouhy] We said it openly, that we changed our position, that, whereas last year, our main priority was to pay off the debt, this year we said (and Slovakia pushed us there a little, too) that we simply need trade. The priorities simply changed, and now we put them in this order: import of strategic raw materials, export, paying off debt.

[HOSPODARSKE NOVINY] The addendum to the agreement between the coalition parties speaks about the need to give satisfaction to ODA [Civic Democratic Alliance] because it was left out when the Cabinet was enlarged by the addition of the portfolios of the ministers of transportation and defense. What kind of satisfaction do you imagine?

[Dlouhy] ODA said from the beginning that in no way do we want to increase the number of members of the Cabinet in an injudicious way. That naturally, at the general level, the priority was to have a member of the Cabinet, and only then some lower rank. Well, yes, a member of the Cabinet was in first place. After the Cabinet was enlarged at the beginning of 1993, when one member of the KDU-CSL [Christian and Democratic Union-Czechoslovak People's Party] and one minister of the ODS [Civic Democratic Party] entered the Cabinet, we accepted that fact. However, we expected that, if the coalition agrees to it, the executive branch will increase further, and an ODA member will be placed in a sufficiently important position in the government. But, relatively quickly, we reached the realization that it is not possible to enlarge the Cabinet on the basis of the reasons I already mentioned. By the way, I was personally disgusted by the bargaining concerning the person of Vaclav Benda and his nomination. I think that the coalition as a whole lost much in the eyes of the public because of that.

As a result, ODA had to change its priorities, and, as is generally known, it has recently concentrated on the position of Director of the Security Investigation Service [SIS]. We are of the opinion, however, that no drawn-out, distasteful bargaining must take place. We are also convinced that it would not serve our state well if matters connected with SIS and the Ministry of Interior and its supporting agencies were to be in the hands of a single political party.

[HOSPODARSKE NOVINY] At the last ODA conference, you were the one who personally drew attention to the danger of politicizing the government.

[Dlouhy] That is a problem of every democracy. When I spoke about that danger, it was obvious that, let us say, representatives of important privatization funds could, at a particular moment, be very close to individual political parties, both coalition and opposition ones. But I must say that the government, at least, realized that and acted accordingly.

* Rychetsky Explains Errors in Slovak Coupon Handling

93CH0647C Prague HOSPODARSKE NOVINY in Czech 6 May 93 p 11

[Article by attorney Pavel Rychetsky: "How Is It With Slovaks' Coupons? Four Errors of the State and Law Institute"]

[Text] *The staff of the State and Law Institute of the Academy of Sciences of the Czech Republic [CR] published its opinion (HOSPODARSKE NOVINY 3 May 1993), according to which Slovaks, after 1 January 1993, are not entitled to have shares of Czech enterprises that were privatized in the first wave of privatization turned over to them. They base their opinion on the contention that the acquirer of the shares must meet the same conditions as the acquirer of the investment coupons, and they deduce from the dictum of Law No. 92/1991, on conditions for the transfer of state property to other persons, that, under Section 24 of the mentioned law, those conditions are CSFR citizenship and being at least 18 years old. The mentioned conditions can be found only in the provisions of Section 24 of the quoted law, and no other legal rule repeats them or elaborates on them. With respect to constitutional law No. 4/1993 (the so-called appropriation law, which determines that laws connected with the territory and citizenship of the former CSFR continue to apply on the territory of the CR only to citizens of the CR), the State and Law Institute assumes that, on the day when the independent CR came into existence, citizens of the Slovak Republic ceased to meet the citizenship condition on CR territory, and, thus, their titles to the shares ceased to exist. This explanation is based on a number of errors.*

The first error committed by the authors of the opinion was made when they overlooked the fact that the provision of Section 24 of the quoted law, which set the conditions of citizenship and age, was amended by Federal Assembly Law No. 544/1992, to the effect that the present version of Section 24 is extinguished, and the new version applies only to the second or the following privatization waves. To the following privatization waves applies the delegated authorization according to which "the CNR [Czech National Council] and the SNR [Slovak National Council] will adjust, through their laws, the acquisition of coupons that can be used on the territory of the given republic." That does not mean, of course, that, even after the amendment went into force, the conditions of citizenship and age remained an organic part of the valid legal code. On the contrary, they were unquestionably eliminated from the law. Should a legislator want to leave both conditions in force, albeit in a limited way, he would have to do so by means of a positive legal provision.

The amendment went into force on 8 December 1992, and, therefore, on the day on which the CSFR ceased to exist, no conditions for acquiring investment coupons applied on the territory of Czechoslovakia or on either of its successor states. None apply to this day, in fact, because neither the former CNR nor the Czech parliament ever replaced the missing provision with another law. That they will not be able to do so retroactively, there is, I trust, no doubt, even in the State and Law Institute of the CR Academy of Sciences. I hope also that there will not be any doubt that invalidation of the conditions for acquiring investment coupons will not be explained by the authors of the opinion by claiming that

the title to the shares was extinguished also for all Czech citizens and that, in fact, no first wave of coupon privatization ever took place. The government decree No. 544/1991 defines a privatization wave as a period the beginning and end of which is determined by the Federal Ministry of Finance, and, during the course of which, the owners of investment coupons can directly or through the agency of investment privatization funds exercise their right to purchase shares. It is no secret that the first privatization wave is over. On 19 December, the end of the last—that is, the fifth—round of that wave was publicly announced.

I would venture to say that the title of the Slovak holders of coupons would not be extinguished even if there had been no amendment of the privatization law and the condition of citizenship and age had been in force not only on the day the CSFR ceased to exist but to this day. The opinion of the State and Law Institute, it so happens, is based on a false conclusion—that the acquirer of the shares must meet the same conditions as the ones he had to meet to acquire the investment coupons. For such a conclusion, of course, we shall not find support in any legal regulation, whereas, in favor of the opposite conclusion, a number of specific provisions speak, not to mention the principles of legal tradition.

From the point of view of the citizen, in the process of coupon privatization, three new legal concepts—coupon book, investment coupon, ordering shares for investment coupons—played a key role. Those three concepts also delimit the three stages of coupon privatization. The coupon book is merely a printed form, the existence of which is not even mentioned in Law No. 92/1991. Only the procedural regulation of CSFR Government No. 383/1991 sets down that “coupon books are issued by the Federal Ministry of Finance” (Section 1), that “a coupon book can be bought by anyone” (Section 6), and that “a coupon book becomes an investment coupon on the day it is registered in the name of the owner with the Federal Ministry of Finance” (Section 1). The condition of Czechoslovak citizenship and the minimum age of 18 was connected only with the act of registration. In the provision in Section 5, Paragraph 2 of the quoted procedural regulation, we read that “every owner of an investment coupon has an equal title to shares” and, according to Section 18, can “order shares of any corporation included in the pertinent list of privatization projects.” Therefore, the requirement to meet the now already nonexistent condition of citizenship and minimum age was linked only to the moment of the registration of the coupon book. By the act of registration, the book becomes an investment coupon, that is “a registered commercial paper, which gives the owner the right to purchase shares designated for sale for coupons. The coupon is nonnegotiable, and the rights attached to it pass only to the heirs.” That is a verbatim quotation from Section 22 of Law No. 91/1992.

The colleagues from the State and Law Institute are therefore in error the second time when they maintain that the conditions for acquiring a coupon must by met

by the acquirer even afterwards, even up to the moment of acquiring the shares. I do not know, however, why only up to the moment of acquiring the shares, when a positive legal provision, which would link this fact to some kind of waiver or extinguishment of the conditions, does not exist. This somewhat dubious logic of the opinion would then also have to include the assertion that, even the owner of shares would lose the title he already gained and must return the shares, if at any later time he ceases to meet one of the mentioned conditions. I failed to find the legal rule that would require the owner of a coupon book, properly registered and thus transformed into an investment coupon, to continue to meet the conditions that were required for registration. On the contrary, the legal rules in force indicate that, linked to the moment of registration is the term “owner of coupons” and the definition of the coupon as a “registered commercial paper” that establishes “title to shares,” the same title for all owners, without exception. The law defines a coupon as a commercial paper and the citizen who became its holder by the fact of registration, as the owner. At this moment, therefore, the title to the commercial paper—investment coupon—comes into existence. The only limitation that applies to the owner of a coupon is that he cannot transfer his title; it can be transferred only by inheritance. It is therefore beyond doubt that, for example, an heir who inherits a coupon no longer has to meet any conditions other than the inheritor qualifications according to general regulations.

The third time my colleagues from the State and Law Institute erred was when they assumed that the holders of investment coupons had to meet the condition of citizenship, even after they exercised their right to purchase shares by placing a pertinent order. The authors of the opinion obviously believe that at issue are still owners of coupons, and therefore bearers of a mere right to purchase shares, whose title was extinguished together with Czechoslovak citizenship if they did not obtain citizenship of the CR. That error stems from a failure to understand the fact that owners of coupons can no longer be found even among citizens of the CR because, according to Section 4, Paragraph 1 of the quoted government decree, investment coupons remain valid for only 10 months after the day they were issued.

The fact is that those coupons, which were properly invested within the framework of the first round of coupon privatization in shares of specific companies, were transformed at the moment the Federal Ministry of Finance, in accordance with the provision in Section 27, Paragraph 1 of government decree No. 383/1991, “informed each owner of an investment coupon that his order for shares was satisfied.” At that moment, the owner of a coupon, which was a tender limited only by time and no longer by subject, became at the moment of acceptance by the state a holder of the right to have the purchased commercial paper issued to him. There is a difference between a coupon that gives the right to place an order for shares and a coupon that was already used as an order and approved by the state. The coupon is

special tender, and the difference is somewhat like going to a furniture store with a blank check, selecting specific merchandise, and paying for it with a check that is made out. At that moment, a valid purchase contract is concluded.

What kind of legal situation arose then, when the rightful owner of an investment coupon, within the time frame and in the manner assumed in the legal rules, ordered shares designated for exchange with his coupon, and when the state as the seller informed him in writing that his order was accepted and satisfied? First, there was no longer a right under public law, as established by Law No. 92/1991, for adult citizens of what was then Czechoslovakia. A specific right under civil law to be issued the properly purchased commercial paper then came into existence. According to Section 27, Paragraph 1 of the quoted government decree, the only thing that remains is for the "government to set the time and the method to turn over the shares" (again, a verbatim quotation). We know that it already established the method; those will be book entry shares—that is, shares that will not be issued in physical form but will be merely replaced by a certificate of the title to the shares. The time period for the issuance of those certificates remains open, and, therefore, the procedure of the Czech Government, when it stopped issuing the shares, was not against the law. Whether it is appropriate can therefore be a matter of judgment only from a political or a moral point of view.

The question of the moment of transfer, and therefore of when ownership comes into existence, remains open. In the case of movable assets, the ownership is transferred by the so-called tradition (taking over the movable assets). That applies unless a legal regulation determines otherwise or the parties involved come to a different agreement. However, in the case of commercial papers, the law established the book form. In the given case, the state confirmed in writing that the order was satisfied; that is, it issued a confirmation that the purchase contract was concluded, and, on the basis of the power

derived from the law, determined that the object of the purchase will remain in the state's safekeeping and the owner will obtain merely a confirmation of the safekeeping. In reality, that is not even a pure contract of bailment because shares from coupon privatization will never have a physical form and, after 15 May 1992, their ownership will be evidenced by book entry. In the given case, therefore, at issue is ownership of commercial papers that is not entered in books, which fact for the time being merely precludes their negotiability.

The opinion of the State and Law Institute of the CR Academy of Sciences, that foreign currency regulations preclude the transfer of shares to Slovak citizens, is the fourth error of its authors. The foreign currency regulations in force pertain only to acquisition of real estate—that is, land and buildings joined to it by fixed foundations, in the CR by exchange foreigners. Acquisition of movable assets by exchange foreigners on our territory is not limited in any way. The authors of the disapproving opinion base their conclusion on Public Notice No. 303/1992, which adjusts the law prohibiting the export of Czech currency and commercial papers in domestic currency from the territory of the CR without a foreign exchange permit.

The acquisition of ownership is a principle entirely different from regulating how it can be dealt with, and therefore also its transfer. Thus, to turn over those commercial papers or the certificates of ownership, as the case may be, is an unchallengeable duty of the state. The acquirers, for their part, are obliged to deal with them in accordance with the legal rules in force on our territory. Whether the Slovak holders of the shares will request a foreign currency permit to export them outside the borders of the CR (I do not know why they would do so) or whether they will deposit them here is a choice we should leave up to them. Similarly, it is not up to us to pass judgment on how exchange foreigners deal with the regulations of their state. It is the inalienable right of every owner to handle his property in accordance with the legal code, as he sees fit.

*** Emilia Kovac Discusses Recent Visit to U.S.**

93CH0638A Bratislava SLOBODNY PIATOK in Slovak
7 May 93 p 5

[“Excerpt” from an interview with Emilia Kovac, wife of Slovak president Michal Kovac, by Jozef Sitko; place and date not given: “The First Lady on the United States”]

[Text] *The first lady of Slovakia was treated as a lady in Washington, as well. More than a month ago, Emilia Kovac shone in the sparkling historical halls of Hradcany Castle, and now she has shown that she also did not lose her way in the labyrinth of offices and corridors in the city on the Potomac. It is fortunate for the new state that its first lady has totally different manners and a different way of behaving from that presented before 1989 by the wives of the former comrades. I have already partially described the facts of the trip to the United States in the last issue of SLOBODNY PIATOK. It is therefore with pleasure that I give the floor to Mrs. Emilia Kovac for her observations and experiences in the United States. In conclusion, I will also relate the promised description of our unofficial visit to the largest broadcasting giant around, Voice of America, which has 50 national editorial boards. It is not an everyday event when one of our citizens can have a chat with three directors of that important institution.*

[Kovac] My first day in Washington began with a visit to a place sacred to Americans, the monumental Arlington Cemetery. The entire solemn ceremonial had effective staging and was professionally perfectly prepared. It forced the participants to think about the world and its threats. Not only the overall atmosphere contributed to this, with its more than 200,000 graves, but also the weather. The sun shone with only about half its normal light, and suddenly it got dark, a gale blew up, and it began to rain. When I looked at the sky, I was filled with the emotion that a higher power itself wished to show compassion with our gathering, as if it wanted in its own way to remember the victims of the holocaust. All of this made a very deep impression on me.

That was followed by a visit to the Department of State, where I was met by a very charming and pleasant lady, Elisabeth Richard. She works in the area that includes Slovakia. We spoke about the composition of our state administration, about the roles of the first lady in humanitarian activities, and about the possibilities for expanding U.S.-Slovak cooperation. Mrs. Richard put forth explicitly directed questions, which she formulated in a manner that was not intrusive. The conversation was joined in by a countrywoman, Sylvia Bosak, a former employee of the department, in President Bush's administration. As I found out, the new administration has already let go 5,000 Federal employees just in the city of Washington. Mrs. Hattala, an editor of THE WASHINGTON POST, was also present. Right after the beginning of the visit, I found out that I was not such a routine visitor, but that a general judgment was being made of Slovakia through me personally.

[Sitko] How did THE WASHINGTON POST editor who was there behave toward you?

[Kovac] Mostly she just observed me and stayed pretty much in the background. At a suitable opportunity, I asked her, half jokingly, “Why is THE WASHINGTON POST so unfavorably inclined toward Slovakia?” She answered that she knows there have been some unfriendly articles published about Slovakia. Now, however, they are looking for independent people to work with the editors to always objectively evaluate those critical items and present their viewpoints, as well, alongside the text in the newspaper. I think that is a positive step. Our affairs will be particularly helped by a rapid response to the negative information here from their own U.S. sources.

From the way the questions were formulated and their demanding nature, it was clear to me that that was not just a formal talk between the ladies present and the wife of the president.

[Sitko] I believe that was the editor Myra Hattala, who was also present at the meeting with the president at THE WASHINGTON POST and who constantly nodded in agreement at his quiet arguments in the conversation with his U.S. colleagues. I found out later that she knows Slovak well and is soon to become the correspondent in Bratislava.

[Kovac] The luncheon with Secretary W. Christopher was also an interesting experience. My husband sat at another table with the other presidents. I shared a table with the Danish ambassador, another two guests, and Mr. Gottschalk and his wife. They are a very pleasant and unassuming couple, so we all regretted it when the luncheon was over and we parted from each other. It was a great surprise to me then, when, the next day (as part of the opening ceremonies for the Holocaust Museum), Rabbi Gottschalk led the main prayer for the victims of the Holocaust. I was also struck by the fresh beauty of his wife, a blonde with blue eyes.

On Wednesday evening, my husband and I hosted a reception at the Ritz Carlton Hotel. He had to stay unexpectedly long at the White House, however, so he ran late. They came from the Ritz Carlton to ask me whether I would not come by myself to welcome the invited guests. That did not seem to me to be a good solution, so I recommended that representatives of our embassy greet them in the name of the president. My husband then went directly to the reception, and I joined him from the hotel. We were pleased when we came into the enormous reception hall filled with guests. Besides our countrymen who travelled to the reception from other cities and who are always the closest to us, many important Americans and foreigners in Washington accepted our invitation.

The next day I took part in my husband's news conference at the National Press Club. I feel that it came out well for Slovakia and its good name. The entire time, I carefully studied and noted the responses of the U.S.

journalists present to see whether my husband's answers were received well by them. I was pleased that they applauded him at the conclusion.

The opening of the Holocaust Museum itself was an enormous experience for me. It was the first time in my life that I had met such a number of heads of state together in one place. I evaluated and categorized them with a curious woman's eyes. President Herzog and his wife, who greeted me in a friendly way, appeared to me to be a loving couple. The president of Romania, who I just found out now is supposed to visit Slovakia, also appeared especially friendly. President Goncz and other gentlemen also struck me favorably.

The joint program with my husband then split up. I visited the Museum of American History together with my escorts and Mr. Petr Ambrovič and Ms. Božena Krause of the Office of the President of the SR [Slovak Republic]. I was particularly interested there in the independent exhibit devoted to the creation of the image of the First Lady of the United States. For example, Mrs. Carter, who personally worked as part of the president's team, was particularly oriented toward questions of global assistance for natural disasters. Another First Lady was involved in the beautification of the highways so that the United States would look attractive through the windows of automobiles. Mrs. Jackie Kennedy was close to the arts, so she put her efforts into remodeling and beautifying the White House. Each of the ladies has her own specific image as part of the exposition, which starts with a respect for her natural inclinations. The ladies also found in it their source of self-actualization, and that is presented to the public in the given spirit.

That exhibition also presents the culture of how this or that lady dressed. One can see here the inauguration or wedding dresses of the individual first ladies (in the latter case, if they got married when their husbands were already president). The exhibit likewise depicts the period's style of dressing, as well as a certain subjective taste of each lady. Mrs. Roosevelt, who was directly involved in political life, is characterized by excerpts from her newspaper articles and speeches at public occasions, when she stood in for her ailing husband. In this historical evaluation, some First Ladies of the United States acquired the title "Mr. President." That is a position into which I hope never to be placed. That does not mean, however, that I do not closely follow political events. But only as a lay person, without applying any political influence. That exhibit was instructive for me and also stimulating because I have the advantage or the misfortune of becoming the first first lady in Slovakia's history, and I must thus try to create a tradition of an image for the wives of future Slovak presidents.

I continued with my independent agenda. In the evening, a society of so-called independent women invited me to the Hotel Ritz Carlton. Those are women who are totally self-sufficient financially. The dinner was organized by Mrs. Peggy Kay, a business entrepreneur, who it is said

also has certain interests in Slovakia. Not even for the blink of an eye, however, did she indicate what I personally acknowledged. The hostess for the evening was Madame P. Campbell, the owner of several television companies. That lady was noteworthy not only for her wealth, influence, and age (she is over 80), but particularly for her mental alertness. She asked me in a single breath about the status and employment of women in our country, the status of the family and raising children, the area of culture, and other social relationships. At the end of our conversation, she said, as if in an aside, that that could also interest Mrs. Clinton. The owner of some radio stations was also there. One of the ladies present joined in the debate only in the last part of the evening. I later discovered that she was an employee of the Department of State. Thus, nothing was left to chance.

Together with my husband we then left for my second dinner, to which the president and his escort were invited by Mrs. Mladky, the wife of the founder of the International Monetary Fund. This dinner was attended by leading representatives of U.S. political and economic life. For example, Senator C. Pell, the chairman of the Senate Foreign Affairs Committee; Senator Robert L. Hutchings, adviser to the Secretary of State for Eastern Europe; Mr. de Groote, director of the International Monetary Fund; and others. An older woman, a very elegant blonde who spoke very well of Slovakia and the Slovaks, arrived a little late. It was Mrs. Pell, the wife of the senator, who, during the war, was the consul in Bratislava. The period they spent among us was one of the nicest of their lives. Even though Senator Pell had met with my husband shortly before at the Capitol, he came to Mrs. Mladky's to have a further sincere chat with him.

Mrs. Mladky is a Czech. She is a woman of the world, who has a marvelous gift, one that cannot be learned. She knows how to bring people together who either know how to find common ground to talk about or, if they do not find it, know how to go their own way in peace. And she is outstanding at organizing such meetings and always has the mutual relations between the Czechs and the Slovaks at heart.

[Sitko] To be a journalist in Washington and not visit Voice of America is about the same kind of sin as being a Muslim in Mecca and not praying in the main mosque. Even V. Havel does not as a rule pass up the chance to meet with the leaders of Voice of America when he visits the United States. I therefore was very pleased when, together with Chancellor Jan Findra, we went through the director of the Slovak editorial board, Mira Dobrovodský, to the director for European broadcasting, and, through him, to the highest boss over the 50 national editorial boards, a powerful but modest American. In his conversation with us, he proved to be a tactful person and a true gentleman. He listened closely to us for over an hour. We explained to him our various relationships and the attributes of the current politics of little Slovakia, which he obviously would not find on the large map of the world that hangs on the front wall of his office. I

believe our polite comments, which went right to the point, will find a positive response in the new broadcasts of the Slovak editorial board of Voice of America, which was formed not quite one month ago. The visit to the studio and other work areas of Voice of America, which we documented for ourselves with our own photographs, will remain an unforgettable experience for us.

* Postemancipation State of Politics Sketched

93CH0639A Bratislava SLOBODNY PIATOK in Slovak
7 May 93 p 6

[Article by Robert Rosko: "Not Only About Emancipation"]

[Text] The first few months have passed since we began writing a new chapter of our history. Who knows how many chapters there have been, but it is certain that this will not be the last. The splitting of one unit—namely, the CSFR—created two entities: the Czech Republic and the emancipated Slovak Republic.

Time and again we are learning with increasing clarity that each of us is now a citizen of another state, and we are learning to live in our shrunken part of a divided house. Not all of us are getting used to our new situation with the same ease. That depends largely on the depth of our territorial roots. It may be easier for the Czechs in Central Bohemia and the Slovaks in Central Slovakia than for the people along the Slovak-Moravian boundary because the latter may well find themselves trampled down and bulldozed during the process of demarcation. It is the same for families of homogenous nationality rather than for intermarriages, particularly if some members of such a mixed family reside in one and some in the other republic, not to mention households whose workplace was cut off by the demarcation from their homes or vice versa. There is no lack of cases where the boundary sliced off a person's house from his garden, which may lead to situations and scenes so grotesque that they make even Laurel and Hardy's genius seem bleak.

In other words, we have been emancipated. Now the Czech lands are emancipated from Slovakia, and Slovakia is emancipated from the Czech lands. Because of the emancipation, each of the emancipated parties has lost something and, conversely, gained something as well. Time will tell whether the accounts of those losses and gains are null and void. However, the citizens of the Czech Republic can find consolation in the fact that, at the cost of losing a beloved area, they have shaken off at the right moment their Slovak burden, which would probably have hampered their wished-for rapid progress toward prosperity and affluence. On the other hand, the citizens of Slovakia will have to get used to loftier, idealistic arguments that the emancipation of their nation-state in itself is a blessing onto which we must hold even if it means losing the proverbial "pottage of lentils"—although there is no need to stress that, in days of general austerity, the hungry mouths of the people find that a good pottage of lentils is nothing to sneeze at.

Indeed, did the political elites on both sides, so intent on emancipation, realize why was it preferable to give a wide berth to a proper referendum?

We achieved emancipation in such a sophisticated fashion that the whole world felt relieved. Of course, the fundamentalists among those who adhere to the franchise principle are not quite willing to abandon their conviction that the issue of emancipation should have been decided by a referendum. If modern states are created by Their Majesties the Citizens and not by erstwhile sovereigns who ruled by the grace of God, according to the fundamentalists it was necessary to declare that, in this instance, the mechanism of indirect democracy was inadequate. Well, we certainly have something to look forward to.

In Slovakia, such forces are inclined more toward the right wing, which had unfurled a banner with the slogan "For participatory democracy," in an effort to save the CSFR. Consequently, the same forces are morally entitled to keep that slogan even after 1 January 1993. That would be a Slovak idiosyncrasy because, to extol participatory democracy hardly suits the right wing, especially since it favors classicism (in view of its place in our social structure). Here the Slovak right wing has simply misfired and thus revealed its social rootlessness and weakness. It had to be "grounded" by the more advanced Czech right wing, and, therefore, it acts like a dumb-founded mouse when pulled out of its hole—it gripes and complains. We may see that as proof that, when it concerned the Czech Republic's liberation from the Slovak ball of lead, the Klaus team viewed the Slovak would-be right wing as nothing but trouble. At least it should not have ignored Mr. Klaus for the long period during which he was circling around Mr. Meciar and Meciar's supporters with exceeding tact and diplomacy. At any rate, a more detailed analysis of the emancipation process shows that, for its emancipation, Slovakia should be beholden to the right-winger Vaclav Klaus at least as much as the Czechs should thank the broadly centrist Vladimir Meciar for the restoration of Czech statehood.

Speaking of the "broadly centrist" HZDS [Movement for a Democratic Slovakia], it is a sociopolitical force that has taken the case of Slovak national-state emancipation into its own hands with such determination that, on the one hand, it held Carnogursky's political ruminations about "the little star and the little chair" to public ridicule and, on the other, forced the Prokes-Cernak SNS [Slovak National Party] into the sleazy role of pygmy sidekick. One may ask what the HZDS will do with itself after achieving its goal—emancipation. We shall get the correct answer only if we recognize that the HZDS's "broadly centrist" position serves as a code name for a conglomeration of certain rightists, leftists, and hybrids. Such a conglomeration may be held together when dealing with such political tasks as national emancipation, but it is subject to destabilization and erosion when confronted with social conflicts. Face to face with social

conflicts, the right wing and the left wing are as compatible as fire and water; in other words, they get dialectically on each other's nerves.

The revamping of the HZDS's image is practically under way. One may judge the direction of that overhaul from three points of view. First, the SNS, thus far the HZDS's closest political partner, is trying to disengage itself from that alliance and leaning toward the right wing. Second, Knazko's splinter group joined the right. Third, the SDL [Party of the Democratic Left] as a party ready to collaborate more closely with the HZDS is leftist by definition. So what doubts can there be about the HZDS's direction, once efforts for national emancipation have passed their zenith and economic and social tasks are coming to the fore? The HZDS has ceased to be a center with broad symmetry and is turning into a center with leftist asymmetry.

Whatever the result of the prospective closer cooperation between the HZDS and the SDL, it will considerably affect the general configuration of the political lines of force. Successful cooperation will enhance the prestige of the democratic left in the eyes of our citizens, and its failure will serve as a challenge for, and offer a chance to, the democratic right wing.

God only knows why the right-wing forces in Slovakia are so convinced that only the right wing is able to transform our economy in a desirable way and achieve desirable parameters. There is some talk about the danger posed by the left-wing dilettantism, as though this were a case of some irreversible genetic code that one can correct only by changing the party uniform—so long as that uniform symbolizes the preference for the principle of social justice next to the principle of efficiency. In reality, even expertise, which should be the objective, is acquired by learning and improved by experiences—in other words, by activities to which all, not only the admirers of Friedrich August von Hayek, must have equal access.

More than the alleged "leftist dilettantism," one must fear that, even in the changed situation, the HZDS will be reluctant and show exceedingly little intention of cooperating, even with the SDL. There are some indications that the HZDS would like to view the SDL more as its "obedient satellite" than as an equal political partner that would not trade respectability for sinecures. What other purpose can there be in the allusions to the SDL's questionable genesis? According to that logic, its (class) origin is relevant, not how the SDL will transform itself or how it acts. That is the most disgusting demand of the pre-November regime, which dishonors the person who uses it and not the person against whom it is used. To be sure, we are dealing with the phenomenon of so-called unfair competition, which must be rejected in our public life as it is in market economies.

If the anxieties stemming from the noncooperation of the HZDS and its tendency to treat parties with similar

programs as its satellites prove serious, we may not see any political stability in the foreseeable future.

* Option of Early Elections Viewed by Parties

* Positive Consensus

93CH0650A Bratislava PRAVDA in Slovak 13 May 93 pp 1, 3

[Article by Daniela Balazova and Martin Krno: "The Majority Would Not Be Against It"]

[Text] The executive committee of the SDL [Party of the Democratic Left], after an intensive analysis of the current social developments, has arrived at the conviction that the latent political crisis can be overcome in three ways: If the attempts at reconstruction of the current government or at the formation of a broad governmental coalition fail, there remains only the option of calling parliamentary elections ahead of schedule. We asked representatives of a number of political parties and movements to comment on that problem. We did not get hold of anyone among the main KDH [Christian Democratic Movement] leadership, as they are currently carrying out discussions abroad, and the views of the chairman of the HZDS [Movement for a Democratic Slovakia] have been reproduced from his words at yesterday's press conference.

Vladimir Meciar, chairman of the HZDS: We are holding discussions with all of the opposition parties. It is not possible to have a coalition without us, even though several parties would like to add to the negative attitudes toward us. The discussions with the SDL are taking place openly, and we have not concealed any agreement with them. There are really only two possible solutions; either we succeed in stabilizing the economic situation with six months—and it is questionable whether the HZDS will be able to do so—or we call for elections ahead of schedule, in which the HZDS will not necessarily win.

Jaroslav Volf, first vice chairman of the SDSS [Social Democratic Party of Slovakia]: Our party has spoken in the past, as well, about calling elections ahead of schedule. At the time, we even considered that to be the optimum solution after the division of Czecho-Slovakia. The proposal of the SDL that, if it does not succeed in forming a broad coalition, new elections come into consideration is totally logical and obvious. Otherwise, the minority government would be condemned to the role of permanent defender against the majority and that would create room for political instability. In that case, the optimum solution would truly only be elections ahead of schedule.

Marian Andel, chairman of the National Council deputies' caucus for the SNS [Slovak National Party]: Our party requested that a government of a broad coalition of real experts be put together right after last year's elections, and it has regularly returned to that idea. I truly do not see any other way out for us to overcome the deep-seated problems of our society. At least two or three political

parties should take upon their shoulders the burden of responsibility for the further development of Slovakia. Today it is hard to say whether new elections would resolve the current situation. It is entirely possible that it would end up with approximately the same results as a year ago—certainly with the difference that the HZDS would not gain such a strong position in the parliament, which I do not think would be a bad thing, either. But we would again be faced with that same certain task as today, to strive to create a coalition government. If we can solve that problem now, we will gain time and save money, and we will avoid a political crisis. It is true that, if it is not possible to reach an agreement, the SNS obviously will do some analysis and will then obviously be inclined toward some variation of elections ahead of schedule.

Pavol Hagyar, chairman of the Party of Conservative Democrats: I think that the idea of a broader coalition government, a government of experts, is more realistic and probable. The SKD [Party of Conservative Democrats] has a lot of specialists in various fields who are prepared to offer their expertise. Elections ahead of schedule should be a last-resort solution. To hold a referendum on possible elections ahead of schedule requires 350,000 votes. The law on referenda allocates 10 hours of broadcast time on Slovak radio and STV [Slovak Television] for preelection campaigning, but only to the parties and movements represented in parliament. I am convinced that the provisions in the law on referenda is in conflict with the Constitution and the international documents on political rights. Our party is therefore submitting a complaint to the Constitutional Court on this noncompliance.

Anton Duris, chairman of the Democratic Party: The economic and social problems in the Slovak Republic are intensifying the political crisis, a dramatic climax to which must be prevented under any circumstances. In our view, two possibilities present themselves. The first is forming a new government of experts independent of the political parties, which would be supported by a broad coalition of political parties in the parliament, and the second is calling for new elections that would result in representation by the political parties, which would make it possible to create a government of a broad governmental coalition. In the transitional period, we are giving preference to a government of independent experts because such a government would be able to concentrate immediately on resolving the pressing and unpopular problems. The new elections would certainly result in a representation of political parties, which would make it possible to form a government according to the needs of the governmental program, which the present parliament does not provide.

Miklos Duray, chairman of the Coexistence Movement: Even last year we insisted that, if it came to the demise of the federation, the most proper thing to do would be to recognize the new situation through new elections. At that time, essentially all of the other parliamentary political forces—I guess with the certain exceptions of

the SDL and the KDH—took a position against that proposal, with the HZDS being particularly vehement against it. Mr. Gasparovic even announced that anyone who requests elections ahead of schedule wants to drive Slovakia to its knees. I would like to comment that, if Slovakia is driven to its knees, it will only be because of its catastrophic economic situation. Obviously, in such a case, we will subject ourselves to the views of the parliamentary majority, but the idea of setting up new elections is one close to our hearts.

* If Parliament Blocked

93CH0650B Bratislava PRAVDA in Slovak 14 May 93
p 2

[Article by (ao): "Is the Time Ripe for New Elections?"]

[Text] The alternative of rapidly forming a government of a broad coalition and parliamentary elections ahead of schedule became one of the main subjects of yesterday's news conference of the political parties and movements.

KDH [Christian Democratic Movement]: After changing the Constitution. The vice chairman of the movement, Ivan Simko, said that the KDH does not have any basic objections to calling new elections for the National Council. He commented that, for now, the Constitution limits the possibility of shortening the election period. It will therefore be unavoidable that the basic law of the Republic be changed. The chairman of the KDH, Jan Carnogursky, passed on information on the meeting of the committee for European structures and European politics of the EDU [European Democratic Union] in Warsaw, where he got into a sharp argument with a representative of the governing Hungarian Democratic Forum. The representative had requested that one of the conditions for Slovakia's joining the Council of Europe should be abrogation of part of the Kosice governmental program and the postwar treaty between the CSR and Hungary on a mutual exchange of inhabitants. J. Carnogursky responded to PRAVDA's question that the Polish partners in the discussions and our countrymen in Krakow, as well, had expressed their agitation at the method in which Prime Minister V. Meciar had opened up the question of the annexation of 26 communities in the Orava and Spissky regions by Poland in 1920.

SNS [Slovak National Party]: After stalemate in the parliament. The chairman of the party, Ludovit Cernak, emphasized that the SNS is not afraid of new elections, even though it could be unnecessarily expensive entertainment. It is also questionable whether the proper moment has come. Elections ahead of schedule should take place only after the nonfunctional nature or gridlock of the current parliament has been made apparent. If the government does not promptly take measures to resolve the accumulating economic problems, within three months, at most, the time will be ripe for putting together a government of a broad coalition. The SNS means by this the participation in power by all political entities in the current National Council. L. Cernak is

able to envision that the economic departments will be taken over by the rightist-oriented parties, and the social ministries will again be represented by the leftist forces.

* Ethnic History of Southern Slovakia Explored

93CH0631A Bratislava *LITERARNY TYZDENNIK* in Slovak 2 Apr 93 p 13

[Article by Jan Podolak: "Assimilation of Slovaks in Southern Slovakia"]

[Text] Slovakia, owing to its strategic location, played an important role in the economic, political, and cultural history of Central Europe. That small territory "between the Danube and the Tatras" was already in the Middle Ages crisscrossed by significant trade routes of north-western Europe. In that geopolitical space, the interests of the West and the East clashed for many centuries, sometimes bringing the devastation of war and at other times contributing to the economic and cultural advancement of Slovakia. Migrations and colonization involving various nations passing through that territory have also left permanent traces in the evolution of the ethnic structure of Slovakia's population. Hence, at present, it is not only Slovaks living in this country as its original population but also members of other nations and ethnic groups.

According to the 1991 census, the Slovak Republic has 5,268,913 permanent inhabitants, of whom 4,511,679 are Slovaks and 757,266 belonged to ethnic minorities, in particular Hungarian (566,741 persons), Romany (80,627), Czech (53,422), Ruthenian (16,937), Ukrainian (13,847), German (5,629), Polish (2,969), and other less numerous groups. Among the ethnic majorities, the largest in proportion to Slovakia's total population (10.8 percent) are Hungarians living in areas along the southern border. Under the current setup of territorial administration, Hungarians live especially in the following 11 okreses: Dunajska Streda, Galanta, Komarno, Nove Zamky, Levice, Velky Krtis, Lucenec, Rimavska Sobota, Roznava, Kosice-Environs, and Trebisov. The entire population of these okreses numbers 1,181,960, of whom 642,811 claim Slovak nationality (54.4 percent) and 606,845 Hungarian nationality (42.9 percent). In nine of these ethnically mixed okreses, Slovaks constitute the majority; in two (Dunajska Streda and Galanta), Hungarians are in the majority.

The purpose of this article is to survey the evolution of the ethnic structure in southern Slovakia, with special attention to the origin and development of the Hungarian ethnic minority in that area and to the shaping of Slovak-Hungarian relations.

Developments Before 1918

The origins of an ethnically mixed structure in southern Slovakia date back to the arrival of Old Magyar nomadic tribes in the Danube Valley. The low-lying regions of the present Slovakia, as well as central and northern Hungary and especially Pannonia, were, since the fifth or

sixth centuries, inhabited by a Slavic population called Sloviens [Slovieni], who were ancestors of present-day Slovaks. In the ninth century, the Sloviens in Slovakia had their principality with its seat in Nitra, where the first Christian church on the territory of western Slavs was consecrated in 828. Until the end of the ninth century, the Nitra principality formed a part of the Slav state of Greater Moravia. The settlement and ethnocultural development of the Danubian Sloviens, who were a farming folk, was interrupted by an invasion of Old Magyar nomadic tribes into the Danube Valley, from where they conducted military raids on the neighboring lands. After a defeat on the Lech River (955), the nomadic Magyars began to settle permanently on the territory of present-day Hungary and build a centrally organized state. Following the collapse of Greater Moravia, the territory of the Nitra principality was gradually annexed to the Magyar state. penetrate the territory of present-day southern Slovakia but not until the 11th As early as in the 10th century, the warlike Magyars began to sporadically penetrate the territory of present-day southern Slovakia, but not until the 11th century did they begin to establish permanent settlements in the low-lying areas of western and eastern Slovakia and follow the example of Slovak farmers by adopting an agricultural way of life. The arrival of Hungarians in that Slovak-populated area—with the intention of securing the northern border of their young state—did not mean a departure of the Slovak farming population from that territory or an extinction of Slovak ethnicity; the advance of Hungarian settlements into the territory of southern Slovakia merely meant expanding the ethnically mixed zone (which extended from northern Hungary and Pannonia to southern Slovakia) inhabited jointly by Slovaks and Hungarians. The ethnically heterogeneous character of southern Slovakia remains preserved to this day.

In the thousand years of the existence of the Hungarian state—from the arrival of the Magyars in the Danube Valley until the end of Hungary in 1918—there were significant intrusions into the mixed ethnic structure of southern Slovakia, particularly at times of war. After the Tatar invasion (1241), German colonization reached the western part of Rye Island [*Zitny ostrov*]. The period of Turkish wars saw groups of Croatian and Serb refugees from the Balkans settling in southwestern Slovakia, similar to the way Hungarian refugees from the Turks settled in the safer areas of southern Slovakia. After the Turks were defeated at Vienna and following their retreat to the Balkan peninsula, there was a mass migration from Slovakia southward. From the beginning of the 17th century and throughout the 18th and 19th centuries, up to World War I, Slovak migrants established extensive ethnic enclaves over most of the territory of present-day Hungary, and, as part of that colonization, there was also an increase in Slovak settlement in the ethnically mixed areas of southern Slovakia.

Since the second half of the 19th century (especially following the establishment of the Austro-Hungarian

Dual Monarchy in 1867), the ethnic structure in southern Slovakia was also affected by forced Magyarization of the Slovak population. At that time, Hungary was an ethnically heterogeneous state, in which members of the Hungarian ethnic group represented less than half of the total population. The long-term objective of the Hungarian Government—creation of an ethnically pure single-nation Hungarian state—could be achieved only by an assimilation of the non-Magyar nationalities in Hungary. It was precisely in consequence of forced assimilation that, toward the end of the 19th century, the numbers of the Slovak ethnic population began to shrink, while those of people professing the ruling Hungarian nationality and their proportion in Slovakia's total population grew rapidly. The decline of the Slovak population was, however, caused also by the so-called statistical Magyarization, the purpose of which, on the basis of distorted statistical data, was to present Hungary to the world as an ethnically homogeneous Hungarian national state. In those statistics, the then ethnically mixed areas of southern Slovakia were being officially declared as being ethnically pure Hungarian.

Developments in the 1918-50 Period

Slovak-Hungarian cohabitation in the ethnically mixed areas of Hungary appeared on the outside as presenting no problem, but only until members of the Slovak nation began to fight ethnic assimilation. The first problems emerged right after the breakup of Austro-Hungary in 1918, when the Paris peace talks began to set the boundaries of the new Czecho-Slovak state. As in drawing the boundary between Czecho-Slovakia and Hungary, it was not possible to start out from an earlier state of affairs. Because within Hungary there never existed an administrative or ethnic Slovak-Hungarian boundary, the new state borders were drawn through the middle of the ethnically mixed zone inhabited jointly by Slovaks and Hungarians; in some sections, account was taken also of the natural boundaries of certain regional units. After definite approval of the state boundaries (in the Trianon agreements of 4 June 1920), Slovakia was left with about a half-million Hungarians on its territory, but also some half-million Slovaks remained on the territory of Trianon Hungary. From the standpoint of apportioning approximately the same number of Hungarians to Czecho-Slovakia as of Slovaks to Hungary, the boundary, as drawn, was just. But the minorities thus created on the territory of two new neighbor states reacted differently to the new situation. As for the Slovaks in Hungary, the change in their citizenship from Magyar to Hungarian had no effect on their status: They remained an ethnic minority without rights, unable to pursue their educations and cultural development in their mother tongue. By contrast, after 1918, Hungarians in Slovakia found themselves for the first time in their nation's history in the position of a minority in a foreign country. They regarded the loss of their status of a ruling nation as an injustice to which they were unwilling to submit. Thanks to Hungarian diplomacy, the existence of a Hungarian ethnic minority in Czecho-Slovakia

became, right after 1918, an open international problem constantly fanned from abroad.

Present-day development in Slovak-Hungarian relations in southern Slovakia, however, have their roots not only in the territorial separation of Slovakia from "Greater Hungary" and thus the creation of a Hungarian ethnic minority in Slovakia, but also in the systematic efforts of Hungarian political circles to achieve in southern Slovakia such degree of Hungarian ethnic homogeneity that would justify their demands for a territorial autonomy of those regions and gradually also adjustments of the state boundary. Those nationalistic tendencies crop up on the Hungarian side most intensively at times of a domestic or international political crisis. One such period was in the first days of Czecho-Slovakia, when the young state had to quickly address the social conditions in impoverished Slovakia. As part of the land reform in the 1920's, a so-called agricultural colonization of Slovak, Moravian, and Czech farmers took place when they settled on subdivided large estates in the fertile regions of southern Slovakia. At the time of that colonization, approximately 9,000 people (1,800 families) settled on purchased land parcels. Although the colonization was carried out according to legislation adopted by the Czecho-Slovak parliament, Hungarian nationalist circles decried that action as an unlawful acquisition of "Hungarian hereditary land" by a foreign population, which disrupted the "ethnic Hungarian character" of Slovakia's southern border regions. So emerged the first tension between Hungarians and Slovaks in the ethnically mixed regions of southern Slovakia. Local misunderstandings supported from abroad kept growing until 1938, when the Munich verdict provided for Hungarian annexation of that Czecho-Slovak territory. In their first acts after occupying southern Slovakia, the Hungarian fascists looted the properties of the colonists, brutally expelled them from Hungary, and began political persecution of non-Hungarians who remained. The colonists' properties were unlawfully confiscated and handed over to ethnic Hungarians who migrated to the occupied territory from Trianon Hungary. Along with a remnant of the colonists, some 290,000 people of the original Slovak population found themselves on the occupied territory; the fascist regime did not grant them even the basic rights of the minority. The genocide of the Slovak ethnic minority in Hungary during World War II had a negative impact on the further development of interethnic relations in southern Slovakia.

After the end of World War II, there were massive population transfers, which affected the ethnic structure of southern Slovakia. Immediately following the liberation of that territory, large numbers of Hungarians who feared retribution for collaborating with the fascists fled to Hungary. At the same time, Czecho-Slovak authorities expelled those citizens of Trianon Hungary who during the occupation appropriated houses and farms belonging to Slovak colonists. Slovak colonists and other expelled Czecho-Slovak citizens were offered a return to their original homesteads in southern Slovakia. Citizens

forced during the occupation period to adopt Hungarian nationality were allowed to regain their original nationality in the so-called reslovakization program. In 1946-47 (that is, before the totalitarian system was introduced to the CSR), the government organized a so-called recruitment of labor from Slovakia to the Czech borderlands, from where Germans had been expelled. Although the recruitment took place all over Slovakia, in regard to Hungarian inhabitants on the regained territories, that recruitment was by force.

Another extensive transfer was the population exchange agreed upon between the Czecho-Slovak and the Hungarian Governments, according to which 200,000 people of Hungarian nationality were to be transferred from Slovakia to Hungary and, in a reciprocal action, the same number of Slovaks to Czecho-Slovakia. But the agreed quota was not met. During 1945-48, roughly 90,000 people (of whom over 30,000 outside the agreement) were transferred from Czecho-Slovakia to Hungary, and over 70,000 (of whom approximately 12,000 outside the agreement) from Hungary to Czecho-Slovakia. Part of those transferees from Hungary settled in the ethnically mixed localities of southern Slovakia, from which Hungarians had been expelled. In addition to Slovak repatriates from Hungary, some transferees from the former Yugoslavia, Romania, Bulgaria, and Transcarpathian Ukraine settled in southern Slovakia.

The extensive population transfers carried out after the 1938 and 1945 border changes inflicted on both sides wrongs that survive in the consciousness of the population (especially in ethnically mixed regions) to this day. Since affirmations of belonging to a certain ethnic group were during this tumultuous period often motivated by the political situation, statistical data from that period on the nationality structure in southern Slovakia are not dependable. However, from the perspective of the evolving ethnic structure in southern Slovakia, one may state conclusively that, even in the years of fascist occupation, efforts to achieve on this territory a Hungarian ethnic homogeneity were unsuccessful. The region has remained a common fatherland of Slovak, Hungarian, Romany, and other populations.

Developments in the 1961-91 Period

After the totalitarian regime took over in Czecho-Slovakia (1948), mass population transfers gradually ceased. Beginning in the early 1950's, it was possible to see a gradual stabilization of the ethnic structure in southern Slovakia also. Contributing to it was a new government policy in Czecho-Slovakia, which, in accordance with the tenets of "proletarian internationalism," began to support all-around advancement of all national minorities in Slovakia (in particular, Hungarians and Ukrainians). With respect to the Hungarian ethnic minority, that was expressed in support of schools with Hungarian as the language of instruction, the creation of conditions for cultural development (Hungarian theaters, artists, cultural associations, publishing houses, as well as radio and press in the Hungarian language), the

participation of the Hungarian populace in public administration (elected representatives in the parliament and local and town governments), and the use of the Hungarian language in the ethnically mixed regions in all spheres of public and social life. The basic rights and liberties of the ethnic minorities were already anchored in the 1968 Constitutional Act.

A further expansion of minority rights, guaranteed by international agreements on human rights and fundamental liberties, is provided in the first democratic Constitution of the Slovak Republic of 1992 (Articles 33 and 34), which guarantees an all-around development of minority nationalities in the areas of culture, education, language rights, association, participation in public life, and resolution of all issues affecting minority nationalities in Slovakia.

Indicative of the situation of the Hungarian ethnic minority in Slovakia is, among other things, the ever-growing number of its members. In the period from 1961 to 1991 (when every citizen was free to choose his ethnic group membership), the numerical size of the Hungarian minority in Slovakia rose from 518,782 to 566,741 people, an increase of 47,959. On the territory of 11 south Slovak ethnically mixed okreses, the Hungarian ethnic minority registered an increase of 36,717 people. The fastest growth in the number of Hungarians was registered precisely in those okreses where we find the most aggressive manifestations of Hungarian nationalism and where the Hungarian side claims the alleged danger of an existential threat to the Hungarian minority (for instance, in Komarno okres, the Hungarian population increased by 5,951 people over the past three decades; in Dunajska Streda, by 19,239; in Galanta, by 4,668; in Nove Zamky, by 4,019; and in Trebisov, by 4,257. But the growth in the number of Hungarians in Slovakia is recorded not only by the total over the period of the past 30 years but also for the periods between censuses. So, for instance, in the most recent decade (1980-91), the number of Hungarians on the territory of the Slovak Republic rose by 7,251 people. The continual rise in the number of Hungarians in Slovakia is testimony not to an existential threat to this minority but, rather, to favorable conditions for its development.

An analysis of ethnocultural trends in southern Slovakia, especially in the period from 1970 to the present, shows that the "nationality problem" in ethnically mixed regions is not due to insufficient rights and liberties available to the Hungarian minority; it is generally known that the Hungarians' minority rights and liberties in Slovakia exceed European standards. The problem lies in the one-sided preference given to Hungarian minority rights at the expense of the non-Hungarian population living in ethnically mixed localities along with Hungarians. Increasing the rights of one group of the population at the expense of other groups always leads to misunderstandings and conflicts, which, in ethnically mixed localities, acquire an ethnic character. The many years of one-sidedly preferring Hungarians in southern Slovakia awakened Hungarian nationalism,

which, thanks to support from abroad, has taken on an openly anti-Slovak character, especially after the fall of the totalitarian regime in Czecho-Slovakia. The nationalist orientation of the Hungarian minority is expressed primarily in the field of education. Hungarian grade schools and secondary schools have completely abandoned bilingualism (Slovak is taught as only one of foreign languages), as a consequence of which young Hungarians have difficulty communicating in an environment where Slovak is spoken. The Slovak language, which should be used alongside Hungarian, has also receded from many churches and from the public religious life of communities.

In many ethnically mixed villages and towns, Hungarians are demonstratively refusing to communicate with Slovaks in the Slovak language; even in the offices of their local administration, the language of communication is only Hungarian. The intolerant and even aggressive settlements of some representatives of the Hungarian ethnic minority in Slovakia ("an ancient Hungarian land") are pushing Slovaks toward the position of an ethnic group lacking equal rights. In such circumstances, Slovaks in ethnically mixed localities are left with only two courses of action: either submit to the local integration efforts of the more aggressive Hungarians and, thus, gradually lose their linguistic and ethnic identity or defend themselves against the Hungarian assimilation pressure and thus face the risk of being accused of intolerance toward their Hungarian fellow-citizens. According to ethnological research, Slovaks as the more yielding ethnic element prefer the first alternative, only to avoid conflicts with the more aggressive members of the Hungarian ethnic minority.

The conclusion from ethnological researches about greater tolerance on the part of Slovaks is confirmed by statistical data on the evolution of ethnic structures in individual okreses of southern Slovakia, from the perspective of a shifting percentage share of Hungarians and

Slovaks in the total population of the okres. For instance, in Dunajska Streda okres, the percentage of Hungarians in the total okres population in the 1961-91 period increased from 86.7 percent to 87.2 percent, while the proportion of Slovaks dropped during the same period from 12.1 percent to 11.3 percent. Similarly, in Komarno okreses, the percentage share of Hungarians increased from 69.4 percent to 72.3 percent, while that of the Slovaks fell from 29.6 percent to 25.8 percent. In Trebisov okres, the Hungarian share rose from 38.8 percent to 39.3 percent, and the Slovaks' fell from 60.6 percent to 57.1 percent; in Kosice-Environs okres, the Hungarian share rose to 16.4 percent from 14.5 percent, and the Slovak share in the total okres population dropped from 84.9 percent to 77.2 percent. These data confirm that the percentage share of Hungarians in the total population of individual ethnically mixed okreses is increasing at the expense of Slovaks living there.

After Czechoslovakia was established in 1918, the numerical strength of the Hungarian minority in Slovakia was estimated at a half-million. In 1950, after completion of the large postwar population transfers, more than 350,000 people in Slovakia professed Hungarian nationality. The 1991 census put the number of people of Hungarian nationality at 566,741, meaning that, since World War II, the number of Hungarians in Slovakia increased by about 200,000. By comparison, after 1918, approximately half a million Slovaks found themselves on the territory of Trianon Hungary. According to Hungarian press information in 1992, the number of people professing membership in the Slovak national minority in Hungary at present is between 8,000 and 10,000. These data on the numerical strength of the Hungarian minority in Slovakia and the Slovak minority in Hungary over the past 75 years confirm which of the two neighboring states offers its national minorities the conditions for all-around advancement and where, in consequence of national oppression, they are headed toward extinction.

Federal

Cosic Views Communism, Milosevic, Bosnian War
AU0706171193 Warsaw GAZETA WYBORCZA in
Polish 5-6 Jun 93 pp 14-15

[Interview with former President Dobrica Cosic by Adam Michnik in Belgrade on 16 April: "One Does Not Choose the Stick?"]

[Text] When I spoke to Dobrica Cosic, he was still the president of Yugoslavia. So, the course of events has added a certain poignancy to the conversation—he was recalled by a coalition of nationalists and communists.

I know that he is a very controversial personality. The publication of the conversation—as well as the very fact that it took place—has elicited considerable criticism from my Serbian and Croatian friends. Mirko Kovac, the notable Serbian writer who now lives in Croatia, aired his critical thoughts in the press.

I spoke to Dobrica Cosic for several hours and the conversation was fascinating. I think that this man, his writings, and his fate not only encapsulate the tragedy of Serbia but also its glory. One may not like his writings and condemn his politics, but one cannot dismiss the significance of his life history.

There is an air of ancient drama about him: The autodidact who became a renowned writer; the dissident who became president; the communist partisan who became one of Tito's most strident opponents; the defender of a multi-national Yugoslavia who is now considered the first theoretician of "ethnic cleansing."

I wanted to let someone speak who possessed authority for many Serbs. I wanted to let him speak, although I remained politically fundamentally at odds with him. The reader will be able to judge whether I acted correctly.

[Michnik] For me, you are above all an outstanding Serbian writer. Your life history is extraordinary. You have been everywhere: in the partisan movement, in the communist movement, and in the opposition for many years. Could you tell us in the simplest terms what your reasons were for parting ways with communism?

[Cosic] You are not only a journalist and an essayist; your writings and ideas have always given me pleasure. During the opposition—anti-Tito period—many of my friends and I were fascinated by the ideas emanating from the Polish Workers Defense Committee circle, and we read you very carefully, and we learned a lot from you. I am saying this as an old man. Did you belong to the party?

[Michnik] No, I was too young. When Stalin died, I was seven years old, but my father belonged to the party.

[Cosic] I have answered your question about parting ways with communism in the several thousand pages of my stories. A few days ago I was reading Kaestner's

autobiography. It also explained the motives of my generation—being concerned about what could be called the eschatology of a perfect society, a providential future, justice, and equality.

However, if I once again found myself in Yugoslavia, Serbian reality such as it was when I joined the party, I would become a communist once again with all those utopian ideas. The only thing is that essentially I should have left the communist movement in 1953 when I belonged to the Milovan Djilas circle and when Tito brutally crushed our idea of democratic socialism.

Well, I was not a Djilas hard liner but a moderate Djilas supporter, and I was like that not because I was less of a democrat than he was, but because I came from a poor area and I knew that the most important thing was to feed the poor in the countryside, treat sick children, send rural children to schools, and rebuild roads, schools, and hospitals. These were such pressing issues that the idea of democratic socialism seemed a luxury to me and I thought that it could be put off until later.

In addition, the Cominform and Stalin were issuing more and more threats directed against Tito's Yugoslavia. However, I should certainly have left the movement when I got to know Tito in 1961.

[Michnik] As late as that?

[Cosic] Until then I had seen him only in photographs, on news reels. Then I got to know him because he seemed interesting to me as a writer. In addition, it was important to him that I was a Serb because he had an even paranoid dislike of Serbs, but in me he saw someone he could trust, admittedly a Serb, but a weak Serb as he thought....

[Michnik] Weak?

[Cosic] He could also make mistakes. I got to know him better when I accompanied him on his ship on travels around the world as one of those court writers: The Croat Krljeza went to Egypt, the Macedonian Koneski to India, the Montenegrin Lalic to Russia, and the Serb Kosic to Egypt.

So, I had the opportunity to dine with Tito at the same table, observe him all day, listen to him at close quarters, watch thrillers that he adored, and keep him company at various sporting events. On the ship, I realized that the man could be everything except a democrat. He simply had no weak points. He was a man made of granite—a granite despot.

In addition, he was a vulgar hedonist. A man who possessed excellent political reflexes. He was uneducated but intelligent, and had an excellent defensive mechanism. There are very few people who hoodwinked him, whom he mistakenly assessed. Djilas and I were probably his greatest mistakes....

Living together with Tito for two months, I understood that as long as he lived, nothing would come of democracy. I then wrote the anti-utopian story "Rajka." I then became friends with the group of philosophers that had formed around the magazine PRAXIS. I was among the founders of the publication DELO, which conducted a bitter campaign against dogmatic esthetics, socialist realism, and other nonsense. It was necessary to part ways with a significant number of my friends and risk isolation....

Finally and officially, I left the party in 1968. I then became convinced, like all of my friends, that Tito's party had sunk into nationalism.

[Michnik] When was that?

[Cosic] In 1962 or 1963, Yugoslavia had already begun to fall apart and was changing from being a federation into a confederation. That is because all the communist parties in the republics, especially the Slovenian and Croatian parties, were covertly nationalist and concealed such nationalism under concepts such as so-called self-administration. The Serbian party displayed the strongest attachment to the idea of Yugoslavia.

I think that Kardelj (a Slovene and one of Tito's closest colleagues, he was responsible for ideological and economic affairs—editor's note) concealed nationalism exceptionally skillfully under institutional and social concepts. Then, the idea of self-administration was raised from the enterprise level to the national level. All these things logically led to the primacy of national interests in the economy, the metamorphosis into a confederation, and the collapse of the idea of Yugoslavia.

The ideology of self-administration, which was to replace classical Marxism-Stalinism, lacked the power to become rooted in society emotionally and become a cohesive force. On the contrary, the effects of the ideology were disintegration.

[Michnik] You were the first Serbian writer to write about Draza Mihajlovic (the World War II leader of the Chetniks, a Serbian movement allied with the Western allies; after the war, the Chetniks were fiercely repressed by the communists, and Mihajlovic himself was beheaded—editor's note)

[Cosic] Please believe me when I say that my view of Draza Mihajlovic was the same in 1991 as it was in 1961. The Chetnik movement was tragic and anachronistic in its ideas and political views. It had a banal slogan that was intended to win over the peasant masses: For king and fatherland! It promoted that slogan during the exceptionally critical and dramatic time of war, at the time of the disintegration and collapse of the Yugoslav state!

So, someone who had greater hopes and aspirations for his people could not have been a Chetnik. However, the principle adopted by the movement that "this is not the

time for an uprising" has to be given credit. That was rational because to wage war at the price we paid in Serbia....

I can even give you an example: When I was a commissar in a partisan unit, we ambushed a German truck and made a hole in one of its tires. The next day 25 peasants were arrested and shot. Such a war could have only been waged by fanatics, people who were not only fighting for Serbia but for Russia as well and wanted to defend the whole world against fascism.

Draza Mihajlovic's movement behaved differently in different parts of the country. In Montenegro, he collaborated with the Italians because they were in the cities. In Serbia, the Chetniks went underground and semi-underground, but they waged a clearly anti-communist and exceedingly brutal struggle. You might not believe me, but in my district, Trstenik, they murdered 680 people, mainly because of their hatred for communism. The communists also played no jokes, but they never did things like that in Serbia.

The left wing committed mistakes and sowed terror in Herzegovina and Montenegro but not in Serbia. We had a leader who fought in the Spanish Civil War, a man of culture, a mature and intelligent person....

[Michnik] Did he become well known later?

[Cosic] No. He was Dr. Neskovic of Kragujevac. We, who remained in Serbia as partisans, were an elite and ideologically motivated army, with a high level of morals. We made no distinction whatsoever between various nationalities. In fact, we did not imagine it was possible to sow terror.

[Michnik] Well, things were different in those places where Tito fought.

[Cosic] Both the communist movement and the Chetnik movement were incohesive and heterogeneous. Local conditions were of crucial significance. Wherever the Chetniks maintained contacts with the British, they did not collaborate with the Germans, stayed underground, looked after themselves, and fought only the communists. They did, however, collaborate with the occupant elsewhere.

[Michnik] What was behind the Rankovic phenomenon, his conflict with Tito, and fall in 1968?

[Cosic] In 1962, Tito adopted a basically confederative concept of Yugoslavia. He abandoned his Yugoslav spirit. The Croat inside him emerged; Serbophobia and an Austro-Hungarian complex made themselves felt. Rankovic was a federalist; he was a faithful Yugoslav. He punished Serbian nationalists, sometimes cruelly and unjustly—if one admits that such nationalists ever existed. He opposed Kardelj and his ever-increasing confederationism.

He fell because he was recognized as an opponent to the self-government that was being engineered by Kardelj.

Tito knew that this could not be considered a reason for overthrowing a popular leader, so he availed himself of the methods of his teacher Stalin—espionage and eavesdropping—so that it developed into a police matter. Tito spent three years fabricating it. This is a key fragment of his infamous political biography.

Then in 1966, I said to Tito that Rankovic is opposed to self-government, but he is not a spy. I said he did not install bugs in his own rooms and that we cannot use such dirty methods against a man like that. However, all they did was quote Khrushchev: "When one has to strike someone, one does not consider which stick to use."

Rankovic's fall was a great moral blow to our generation. We are still glossing over this scandal in the name of heaven knows what kind of ideological chimera. We all agreed to the spreading of lies in keeping with the old communist principle "the end justifies the means." And the end—the objective—was self-government, brotherhood, unity, and Comrade Tito.

[Michnik] When I was in Belgrade three years ago, I was struck by the fact that no one wanted Yugoslavia any more. I spoke to Serbs, Slovenes, and Croats. No one wanted it.

[Cosic] No Yugoslav writer has written so many texts in defense of Yugoslavia and against nationalism as I have. I have never been able to understand why Croat or Slovene intellectuals do not want Yugoslavia.

[Michnik] They said that Yugoslavia is a form of Serb domination. The Serbs think this is nonsense because Tito was not a Serb, nor was Kardelj, nor were any of the others.

[Cosic] I spent three years creating a Yugoslav opposition. I did so mainly in Belgrade and Ljubljana because Zagreb was demoralized and not prepared for any Yugoslav option. I believed that the intellectuals of Belgrade and Ljubljana could inspire a reform of Yugoslav society but nothing came of it. All Slovene intellectuals were nationalists, and many of them were overt or covert chauvinists.

I spent literally dozens, if not hundreds, of nights holding talks. As long as the subject was the demolition of Titoism, everything was all right. But as soon as the defense of Yugoslavia cropped up, they said no, we are going our own way. We have our own ethnic identity, but we are a small and endangered nation. We have to guard ourselves. That is what they said.

[Michnik] It is getting cold. I have the impression that nationalist emotions are being fanned on all sides. How can one describe the Croats as a genocidal people? There are no genocidal peoples.

[Cosic] But there are peoples that are disfigured by nationalist ideology to a greater or lesser extent. The Croatian people's tragedy is its nationalism. From there it is but a short step to chauvinism.

A streak of chauvinism, anti-Serbian and anti-Orthodox chauvinism, runs throughout Croatian history, right up to Tudjman. It makes itself heard during all crises—from the anti-Serbian demonstrations of 1902, via the two world wars (during World War I, Stjepan Radic called for a holy war against the Serbs; during World War II, the Ustashi arrived on the scene), right up to the recent disintegration of Yugoslavia and the emergence of Tudjman. The Serbs made a great mistake when they failed to appreciate the Croats' intention of statehood. We regarded Yugoslavia as our own state, and we regarded ourselves as a diaspora scattered throughout Yugoslav territory. The Croats could never consider this country their own, and we were wrong not to appreciate their desire for their own statehood.

[Michnik] Perhaps the Slovenes and Croats did want Yugoslavia at first but later became disillusioned?

[Cosic] This view is not fully defensible. Yugoslavia really is an artificial state. It arose in 1918 out of peoples that had fought each other. Sixty percent of the Austro-Hungarian army consisted of Croats, Muslims, and Slovenes. After that, all these peoples, plus the Serbs, suddenly woke up and found themselves within a new state.

Yugoslavia was not formed by social energy or a desire for ethnic or spiritual integration. It was formed out of necessity. In 1918 the Italians advanced in order to seize Dalmatia from the Croats. Then the Croats sent a delegation to Belgrade in order to join with Serbia, which, as a victor in the war, was in a position to save Dalmatia for them, just as it was in a position to save Koruska and Primorja for the Slovenes.

However, three months after unification, Croatian separatism began. That is our state's tragedy.

[Michnik] But there were also supporters of Yugoslavia among the Croats.

[Cosic] Not many. A few intelligentsia people. Krleza told me himself that he was opposed to unification.

[Michnik] On the other hand, there is no other Croatian writer as critical of the Croats as he is.

[Cosic] That is true, but he is even more critical of the Serbs.

[Michnik] No. He is most critical of the Croats and the war.

[Cosic] That is natural. Since World War II, he has also said several times in his books that "there is no Croatia without Bosnia," a view which he later retracted, by the way.

[Michnik] Many Serbs say the same thing concerning Serbia.

[Cosic] That is not the same. The Serbs are a majority in Bosnia. The Croats were a minority there. I knew Krleza

very well. I spent many days and nights talking to him. I was a young man, happy to be next to Krleza. First he telephoned Tito, had lunch with him, and then telephoned me and told me to come to the Majestic Hotel. At other times, he came to me to listen to music. I am very sad that Krleza supported Croatian nationalism in the final years of his life.

[Michnik] And you supported Serbian nationalism. Can you say today where the heart of this nationalism lies?

[Cosic] Serbian nationalism is very strong. It has an objective motivation—an existentialist fear of survival caused by the destruction of Yugoslavia. One-quarter of the Serbian people are in other countries. Many are exposed to ethnic persecution. The war in Bosnia is continuing.

These are objective factors that have encouraged Serbian nationalism and made virtually all parties sensitive. The nationalism of Seselj's party is the most dangerous today.

[Michnik] Why?

[Cosic] Seselj is the most militant man, and his party is the most militant party. Apart from that, it is Fuehrer-like. It is gathering in its ranks many refugees—from Kosovo, Bosnia, Herzegovina, Croatia. We are all wondering who voted for Seselj. I have never met anyone in my milieu who did so.

[Michnik] What is the political objective of the nationalists today? Where do they see their future?

[Cosic] They have a new objective every day. Their latest objective is all Serbs within one state. That is idiocy. It is simply impossible. Nonsense. One of our forefathers once said something about a single state, and now they are excavating the remains of this philosophy and conjuring up a policy that will lead to an eruption and has caused the war in Bosnia. Such senseless ideology ends in war.

[Michnik] What is behind the ascendancy of Serbian President Slobodan Milosevic? How is it that a communist leader has gained such support in society?

[Cosic] Milosevic spoke out in defense of the equality of the Serbian people vis-a-vis local populations in other Yugoslav republics, hence his great success. The Serbs were scattered, frustrated by autonomous districts, and possessed a feeling of inferiority. They received Milosevic as a savior.

However, he was not intellectually prepared for this role. He commenced some social transformations but never finished them. His ideology remains unclear.

He is the leader of the Socialist (postcommunist) Party, but I do not know what is socialist about it. Milosevic merely has a very precise idea of a state; he is a natural

autocrat. He is also a very intelligent, hard-working, and energetic person. He overcomes his adversaries without any trouble.

[Michnik] Does that mean that his strength lies in the weakness of Serbian democracy?

[Cosic] No. I think the Serbian nation has found itself in a situation that simply requires a strong leader.

[Michnik] That is true about Poland, Slovakia, and Russia. However, only in Serbia is this strong leader a declared communist. For me, that is an enigma. I thought he would lose in a clash with populist nationalism. No one stood any chance against him.

[Cosic] Yes, but his weak rival Milan Panic still got 35 percent of the votes.

[Michnik] The entire opposition was in favor of him, and yet a communist got 65 percent of the votes. I do not understand that.

[Cosic] Our communism was different. It was not Quisling-like. It was downright tyranny. It used corruption rather than repression. I used to call Titoism consumer-Stalinism.

[Michnik] The opposition is weak.

[Cosic] Because its core has collapsed. We who led the strongest dissident group, which stayed together for almost 20 years, believed it was enough to destroy Titoism, and an era of democracy would begin. Most of us were not really interested in politics. We joined politics too late. If we had formed a social-democratic party in 1989, Serbia would have been completely different today.

It is we, the former opposition, who are responsible for the shape of Serbian democracy and not Milosevic or the communists.

[Michnik] The last few years have been very unfortunate for Serbia. No end to the war is in sight. Serbia is isolated in the world. What way out of this misfortune is there?

[Cosic] The prospects for some way out are weak for the time being. However, as you know from history, for a nation, there is no situation without a way out. A nation goes on.

However, we have still not succeeded in clearly defining our social and national goals. The world is cruel toward us. It is not prepared to or interested in establishing the truth about us. I often wonder whether the Cartesian spirit has completely died in this civilization, whether people have lost a sense of shame?

Can a complex reality such as Yugoslavia be reduced to black and white colors? Why is it that in this age—the so-called information technology civilization—the world does not see the truth about Bosnia?

[Michnik] What is the truth then?

[Cosic] It is not true that the Serbs are aggressors. It is absolutely untrue. Aggressors in one's own home? After all, it concerns the Serbs' land. Until 1961, they were the most numerous people in Bosnia. They did not conquer Moslem or Croatian territory. They are simply holding on to their territory.

[Michnik] But they are shooting?

[Cosic] Yes, they are. Everyone is shooting.

[Michnik] Well, someone started shooting in Bosnia, and it was not the Moslems after all....

[Cosic] How did the war in Bosnia begin? It began in the middle of Sarajevo itself, when the bridegroom's father was shot at a Serb wedding.

[Michnik] But the fact that someone was killed does not mean the start of a war.

[Cosic] Then the barricades came. There was Izetbegovic's appeal stating that the Yugoslav Army was an occupying force.

[Michnik] But it was still not a war.

[Cosic] It all started with the formation of Moslem democratic party.

[Michnik] Izetbegovic is not a fundamentalist. It is Islam with a human face.

[Cosic] Did you read his speech when he received an order of merit in Riyadh, a speech in which called for a Jihad, a Holy War?

[Michnik] But for some time now, he has been looking for allies wherever possible. Besides, I consider the Serbs' charges absurd.

[Cosic] The Serbs are conducting a defensive war. They had no reason to fight the Moslems or the Croats.

[Michnik] There is the view that the Moslems are ethnic Serbs? They are neither Arabs or Turks; they just have a different religion.

[Cosic] That is true, but they have been recognized as a nation. That is also the case with the Serbs and the Croats.

[Michnik] The Croats have a somewhat different recollection of history.

[Cosic] We are struggling with this problem day and night. Things are very difficult for us, and I believe that the most important thing from our point of view is peace as quickly as possible. That is not just political phrasemongering. There have already been too many victims and too much destruction. The Serbian nation cannot suffer more.

This war can only be fuelled by madness or an existential fear about surviving. However, maybe the fear is so great that it is turning into madness. I do not recognize my

own nation—part of it—in the acts that have been perpetrated by certain individuals, in their crimes. I believed that the last atrocities committed by Serbs were during the war with the fascists and the revolution.

[Michnik] When I speak to people from the various countries, I get the feeling that they need a war and that they do not want to look for political solutions. I hear that from Croats, Serbs, and Slovenes. It is absurd. No one is looking for political solutions.

[Cosic] Yes, I honestly did not believe that there would be a such a resurgence of evil. Why that happened is something that a politician cannot explain. It requires a great deal of reflection.

[Michnik] I first learned about you when I was in prison. It was 1968 and TRYBUNA LUDU had published an article about how you had been removed from the Central Committee of the Serbian Communist Party. That was the first time that I had heard about a writer called Dobrica Cosic and so I have known you for 25 years.

Belgrade Stock Exchange Trading Falls

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[Article and interview with Branislav Cosic, director of the Belgrade Stock Exchange, by Vladimir Grlickov; date and place not given: "Belgrade Stock Exchange: Imitating the Market"]

[Text] *Two years of toil to create the stock exchange; was it all in vain: The stock market did function to some extent, but now trade has stopped; interview with Branislav Cosic, director of the Belgrade Stock Exchange.*

At official and unofficial meetings of the Stock Exchange last year in Belgrade, there was no trading in securities. But that only creates the illusion that nothing has been done at the Belgrade Stock Exchange concerning its basic function.

Transactions were carried out in everyday communication through an order book that gives Stock Exchange access to all parties interested in trading securities: banks, financial organizations, and companies, regardless of the type of ownership. The amount of business conducted last year—97.2 billion dinars, or 176 million German marks—proved that the Stock Exchange is justifying its existence.

Criticism that this is being accomplished "unnaturally," since most of the trading is in short-term securities, not long-term bonds and stocks, which are designated as its basic "job," is unjustified, although accurate. At a time of unstable political and economic conditions, it is not possible to conceive of, much less actually invest in long-term deals. The last thing that one might expect is that this can be done with proprietary securities backed by privatized companies and banks. The circumstances

are so unfavorable that it could even be concluded that investments made in securities through the Stock Exchange for one, three, or six months are too risky with regard to maturity.

The Stock Exchange is basically a market institution. However, the business transacted on the Stock Exchange should not lead one to think that all of it is a function of the market economy. Such a conclusion is inaccurate because there is no market economy. The business on the Stock Exchange is only an attempt to imitate the market circulation of securities. Officially, only two proprietary securities were quoted on the Stock Exchange last year. They were stock from Sintelon in Backa Palanka and stock from Invest Bank in Belgrade.

It is not possible to objectively assess what securities could be quoted on the Stock Exchange, in part because the conditions are not such that one can get a true picture of the business and financial capabilities of potential issuers of securities, or rather of those in which one could invest with the least possible risk. Among other things, it is hard to assess the extent to which any company will be affected by the UN sanctions.

Of the last year's total trade in securities, amounting to 92.7 billion, credit instruments accounted for 99.5 percent. This involved primarily trading in commercial and treasury notes amounting to 86.8 billion dinars, with terms of seven to 90 days. Also traded were short-term bonds from the republic and the federation, amounting to 5.4 billion dinars, which accounts for 6 percent of the total trade. A very small percentage of the trading—0.5 percent—related to the sale of the securities of two banks (Jugobank in Kosovska Mitrovica and Credit Bank in Pristina).

As far as interest rates on credit instruments are concerned, it can be concluded that they were higher on the Belgrade Stock Exchange than the level achieved on the Money Market, but still significantly lower than the inflation rate. That caused an increase in the trade in shorter-term treasury notes; thus, the usual term for these securities was 15 days. This is obviously not a case of investment, but rather an attempt to protect the part of one's free resources that cannot be applied to the purchase of goods and foreign exchange from inflation, at least partially. It is interesting that the interest rate on the Stock Exchange was generally lower than the rate at the majority of banks for liquidity loans.

Last year the Belgrade Stock Exchange drafted a plan to expand its operations to include trading in secondary-market distributions, foreign exchange, and gold. The project, of which the competent authorities in the governments of the Republic of Yugoslavia were aware, reflected the effort by the Stock Exchange to be actively involved in reforming the entire financial system and in defining its own role on the financial market.

The Stock Exchange entrusted the auditing of this project to the audit consulting firm "Deloitte and Touche" in the form of a contract. In addition to the

project audit, there are plans for a similar confirmation process for the proposed Law on the Stock Exchange and Law on Securities, whereby the Stock Exchange is also actively involved in drawing up this legislation.

The Stock Exchange has cooperated with the Commission for Securities, providing it with material and information on its functioning, as well as proposals for further development. This involves changing statutes and operational procedures, auditing the "Role of the Stock Exchange on the Financial Market" project, and the like.

Tree for a Branch

The measures by the federal government and the National Bank of Yugoslavia [NBj] have caused a halt in trading on the Belgrade Stock Exchange. Without its basic function, the question is whether the Stock Exchange, as a market institution, should exist.

However, all this can lead one to consider how the period under the sanctions is being used, for example to give meaning to a market-based financial system that could "get going" after the embargo is lifted. It is evident that a market-based financial system must be taken into account, in part because that is a condition for foreign aid, especially from the IMF and World Bank, without which economic recovery is not possible.

One of the market criteria is the successful functioning of the Stock Exchange, which is in turn based on the active participation of the International Finance Corporation (IFC), a component of the World Bank. This is why closing the Stock Exchange, which has been fastidiously developed for more than two years, can only retard the process of normalizing relations with the world.

In this light, we will take a look at the measures taken by the government and NBj to limit interest (and exchange) rates, seeking answers to questions from Mr. Branislav Cosic, the director of the Belgrade Stock Exchange. "The effect of these measures will be to chop down the tree in order to get only one branch," was Cosic's initial reaction to the request for an interview.

[Grlickov] The latest measures taken by the federal government and the National Bank to limit interest rates on deposits and loans are not stimulating trading on the Stock Exchange. In addition, direct credits between companies are prohibited.

[Cosic] The enacted measures restrict the functioning of the Stock Exchange and inhibit the market flow of money and securities. This does not mean that the Stock Exchange is opposed to regulating this flow. Starting with the fact that money is a commodity, it is unclear why free trade is rendered impossible by "diverting" its flow into certain channels, as is the case today with petroleum, as a strategic raw material that we do not produce here in this country (which is not the case with money, which is easily produced).

We do not expect the measures to yield results, but we welcome efforts by the federal government to impose order on the financial market. The Belgrade Stock Exchange offers its support to efforts to put the flow of money in order. It must be channeled through corresponding banks, but also through the Stock Exchange as an important allocator of money to productive investments.

[Grlickov] Did trading on the Belgrade Stock Exchange fall off after the decision to limit interest rates was adopted, or was that process already under way?

[Cosic] Realistically speaking, trading is falling off because overall economic-financial power is weak. However, these measures brought about a complete halt in the trade of money and securities.

There are illogical aspects to the adopted decisions. Thus, banks can place resources among themselves at interest rates of up to 54 percent, while rates of up to 74 percent are allowed for loans to companies. Under such circumstances, it can be expected that banks will be interested in working exclusively with their companies, meaning with their own promoters and clients. The question is whether this results in the most efficient use of the available bank resources, in terms of the credit ratings of the companies to which loans are issued.

[Grlickov] The prescribed bank margin—the difference between active and passive interest rates—can also create additional liquidity problems?

[Cosic] Even I am not certain that the banks will be able to maintain a liquid position. The consequences of these measures for bank balance sheets and losses remain to be seen.

[Grlickov] The “polemics” about whether the interest rate is 54 percent or 74 percent could seem rather “orchestrated” and insincere, given the existence of hyperinflation that is many times higher?

[Cosic] When official monthly inflation is over 200 percent, it is inconceivable to freeze interest rates at that level. I cannot think of a single country in the world that does not have realistically positive interest rates. But we, who are hard-pressed for capital, impose interest rates that are way below inflation.

[Grlickov] Does the demand that you sent to Governor Ognjanovic on behalf of the Stock Exchange contain a proposal for complete abandonment of limitations on interest rates, or do you simply favor “more lenient” restrictions and allowances?

[Cosic] Our interpretation of the decision is that securities are treated as a commodity and that they can continue to be freely traded. We expect a positive response, through which we could solve the problem with the Trade Payments Service, which is giving us an allowance for orders to transfer funds on the basis of transactions concluded on the Stock Exchange. We want

the Trade Payments Service to be given instructions on how it should treat the buying and selling of securities.

[Grlickov] The Service is blocking the transaction of business on the Stock Exchange concluded according to market interest rates?

[Cosic] That is what is happening. Fear has been generated among issuers of and investors in securities, because they are not certain that they can transact business in that manner. That is why we are seeking the support of competent authorities for our interpretations of regulations under which the interest rates on securities are exempted from restrictions.

[Grlickov] In the current situation of general blockade and frozen production, such a measure could make the situation of companies even worse?

[Cosic] A large part of the basic economy is comatose. What is needed are large quantities of imported raw materials, which is not possible because of the sanctions. At the same time, the goal is to invest the free working resources at the highest possible interest rates, with maximum possible protection against inflation, so that tomorrow we are able to buy raw materials and continue the production process. I am afraid that limiting interest rates will make these funds “spill over” from one account to another and be distributed.

[Grlickov] From the viewpoint of those seeking loans, it could seem that loans will be rather cheap?

[Cosic] I am not certain that such loans will be used productively, especially since the money is not being circulated through market institutions such as the Stock Exchange, but is instead passing directly between major banks and companies. I want to add here that we are not seeking a level of interest rates that would completely follow inflation. Because even before these measures were enacted, market interest rates never exceeded 50 percent of the official inflation rate.

[Grlickov] With low interest rates, it is possible to conclude transactions where a “decent” return can be earned. I recall that there were assertions about profiting from a low discount rate?

[Cosic] Only now, with these restrictions, there will be abuses. The conditions for abuses are best when the market is inhibited and restricted, i.e., when some people are given rights and others are not. I think that right now there is no one who would not take out a loan with an interest rate of 74 percent when inflation is over 200 percent.

[Grlickov] The dinar's exchange rate is also limited, after a fashion, and is practically “frozen”?

[Cosic] That does not favor exporters who want to sell products abroad after the sanctions are lifted. On the other hand, the low exchange rate “motivates” imports, which are not the most essential thing today. An “outburst” of car imports, for example, makes no sense

whatsoever. Under troubled conditions, people always opt for investing in the wrong things.

It is illogical for inflation to be over 4 percent a day while the exchange rate adjusts by 2 percent. As a result, we have a jump in the exchange rate on the "black" market. That is normal if we know that a large quantity of money has been put into circulation, in an attempt to protect the old foreign-exchange savings. And when there are not enough goods, it is logical that dinars end up on that market as "investment" in foreign-exchange assets. At the same time, there will always be a "black" rate until the banks are allowed to sell, and not only buy, foreign exchange and liquid assets.

[Grlickov] As a way to channel liquid capital and savings, the idea was that the state, should use the Stock Exchange as a means to borrow foreign exchange held by banks and private citizens?

[Cosic] I see no trouble whatsoever that the Stock Exchange would make regarding that endeavor. I even think that if foreign-exchange savings were to be transformed into bonds they could be traded on the Stock Exchange. Besides certain benefits that this would provide, the problem of savings could also be resolved in this way. There would always be people interested in buying up savings with a specific discount. That would be a step toward restoring confidence in the legal institutions of the system, and I am thinking of banks, which is the basis for increasing the influx of foreign exchange and liquid capital, and for the creation of new foreign-exchange reserves.

Sanctions Stopping 'Money Laundering'

93BA1043D Belgrade BORBA in Serbo-Croatian
12 May 93 p 14

[Article by B. Stepanovic: "The Sanctions Have 'Dried Up' the Laundering of Money"]

[Text] The announcement by serious bankers that preparations are being made for a rapid shutdown of the remaining private savings banks and banks, which in the last year have sprung up "around every corner," offering high rates of interest, were realized even faster than forecast. Because the scenario involving spectacular flight over the border has already been "blown," a new one has emerged—there are more frequent explosions and armed robberies in the small banks, after which the owners announce that this is why they are unable to pay back savings.

The first explosion occurred in the savings bank Soko, when the foreign exchange that happened to be in the vault was taken (about 75,000 German marks [DM], it was said), and then recently in Interstefani Banka, from which, according to the statement of owner Stefani Aleksander, no money was taken, because they did not keep it there (but nevertheless the bank is not operating at present), and then two days ago an advertisement appeared in the newspaper in which "Aleksandar

Banka" informed depositors that it would not be open until 1 July because of the armed entry. Our persistent attempts yesterday to come into contact with people from these financial organizations proved unsuccessful, because no one was answering the telephone. In the Belgrade MUP [Ministry of Internal Affairs], there is also no official information about the alleged armed robbery of Aleksandar Banka on 30 April, nor has investigation of the explosion at Interstefani Banka, so we have learned unofficially, been completed as yet.

A flood of rumors is already circulating in the city to the effect that these explosions and break-ins are very "suspicious in character," but all that is known for the present is that the fate of the deposits of individuals who put their money in these financial organizations is extremely uncertain. Official authorities have no idea at all how these banks and savings banks operated, how much money they took in, or what they did with it. Inspections were sporadic and very poorly organized, and it was hard to obtain a report. People have thus been left without their money as though they gave it to one of the street smugglers for "safekeeping," rather than to the banks, which as a rule one would assume, when they open their offices and put up their sign, must have obtained an operating license, and that implies the guarantee of the government that this business is legal. Competent people in the SDK [Social Accounting Service], who have several times announced audits of the business of these financial organizations, have acknowledged in the end that they actually could only "take note of the situation," and had no possibility of taking action against violators.

Now that many small banks and savings banks have shut down like falling dominoes, it seems that their business came to an end all of itself, with no help from the competent government agencies. The question, however, is whether this is a consequence of just their own business operation, or with its measures did the federal government nevertheless help to initiate the "removal" of the general financial disorder. In the opinion of the "normal bankers" to whom we talked, none of whom has wanted to expose himself in public in this context in the recent past, the semiwild private banks came to an end both because of their own method of operation and also because of a combination of external circumstances. According to their expectations, this is the first suggestion that the financial and business banking will return to a normal framework.

Bankers believe that the tighter sanctions have helped to impede considerably the laundering of money and the realization of extra earnings, just as was the case earlier. The "volume of transactions" has dropped off drastically, as has the influx of interested new depositors, so that all the accounts began to come to the surface. Second, the founders of these financial organizations themselves were dipping into the money that was at their disposition, they were not paying taxes and contributions, and many of them were unable to lend the money under lucrative enough conditions to pay the high

interest rates promised, so that now it has turned out that the net result is negative, and the depositors have lost out. So far, the government has not said anything about possible reimbursement of the depositors in these banks, but on the basis of the situation at the moment, our informants believe, the individuals who have lost out should not put much stock in anything like that.

Black Market Money Situation Discussed

93BA1043C Belgrade POLITIKA in Serbo-Croatian
15 May 93 p 11

[Article by G. Volf: "A Mark for 200,000 Dinars"]

[Text] The large amount of dinars in underground financial channels and on the street was the reason for the breakneck speed at which the dinar lost value and the exchange rate on the black market rose. In slightly more than 48 hours, the exchange rate rose all of 66 percent.

Yesterday, at about 1300 hours the German mark was selling for all of 200,000 dinars, and occasional spurts even went to 250,000 dinars for just 1 German mark [DM]. Even the dealers themselves are saying that there are too many dinars. According to certain unofficial statements by people privy to the secrets of financial circles, the dinars are coming from Montenegro.

Aside from cash, there is also an abundance of dinars in bank accounts. Thus, the so-called "account" exchange rate for foreign currencies rose parallel to the black market rate on the street. Yesterday, the public could get all of 230,000 dinars for DM1, but it would be paid into bank accounts.

This kind of dizzying rise of the exchange rate on the black market was not unexpected. All serious analysts have been warning for several months now that there would be a real scramble for foreign exchange. There is less and less foreign exchange for sale, and more and more dinars because of hyperinflation and the ever faster operation of the printing plant in Topcider. All those who have a few dinars left over are trying to convert them to foreign exchange in order to preserve their value. Being just a few hours late can be very costly to those who have large sums. Of course, the shrewd dealers are making a good profit on all this.

Yesterday, in Belgrade only Albanians in Francuska Street had sizable quantities of foreign exchange for sale. Dealers all over the city halted sales and were only buying foreign exchange. They began the haggling at 160,000 dinars per mark, but they soon consented to pay much more. They, of course, did not want to talk about who supplied them with fresh dinars. But even if they did say, the information would reveal only the second step in the chain of dealers. It is much more difficult to arrive at the boss and the principal source of the money. Nevertheless, any sensible person can immediately realize where the large quantities of money are coming from. People who work for a wage certainly do not have any. Salaries have dropped drastically when calculated in

marks. According to certain statements by responsible people, the average wage in April amounted to about DM35, and the immensely high salaries were 10-fold greater. When all these salaries are added up, there is not enough money for any major trading in foreign exchange.

In spite of the announcements that the monitoring of money flows would be considerably intensified, it obviously is unsuccessful. Or perhaps not?

[Box, p 11]

Purchase of Foreign Exchange by Individuals With Dinars in Bank Accounts

	DM	Dollars
Eurofinans	205,000	302,500
Alfa	230,000	320,000
Kameleon	211,500	317,250
Interplasttrejd	210,000	315,000
Alka	206,000	309,000

Court Decision on Jugoskandik Viewed

93BA1043B Belgrade POLITIKA in Serbo-Croatian 15
May 93 p 10

[Article by S. Vujosevic: "Jugoskandik: Foreign Exchange and Gold Without Origin"]

[Text] Jugoskandik, D.D. [joint stock company], by all appearances, will be left both without gold and foreign exchange and also without the dinars that were found in the vault at No. 23 Marshal Tolbuhin Street in Belgrade. But not because everything was stolen, but because it cannot prove that it belongs to the firm. So the money and gold which were not taken away by the thieves will remain deposited with the courts until further notice.

"Jugoskandik, D.D., has not offered evidence that that money belongs to it, not even after two deadlines have passed in proceedings to establish the conditions for instituting bankruptcy, which the Settlement Agency instituted against the Jugoskandik Savings Bank," says Milenko Ristivojevic, bankruptcy judge in the District Economic Court in Belgrade, who heads the panel before which proceedings are being conducted.

These proceedings were instituted and the rest of the property confiscated after the robbery that took place in the vault at No. 23 Marshal Tolbuhin Street on the recommendation of the Serbian Settlement Agency because its giro account has been continuously blocked for longer than 60 days and it has been unable to meet its obligations.

"The temporary measure of prohibiting disposition of the gold and foreign exchange in the vault of Jugoskandik Savings bank, which was also located at No. 23 Marshal Tolbuhin Street, applies only to this firm. But

when such proceedings are instituted, then we go into the firm and take an inventory of everything that is there," Ristivojevic explained.

Thus, the court now holds the gold and money which Jugoskandik, D.D., says belongs to it. There are another two parties fighting for that property, and they are the third firm in the Jugoskandik family—Jugoskandik Petrol and the Association of Foreign Exchange Depositors of the Jugoskandik System in Serbia.

"We have rejected the objections of Jugoskandik Savings Bank and the Depositors' Association. The savings bank has filed an appeal with the Superior Economic Court. Jugoskandik, D.D., has been given a date by which to offer evidence that this property belongs to it, but because they offered no evidence, nor have they appeared again before the court, two days ago we rendered a decision rejecting their request for removal of the ban on disposition of that property," Ristivojevic said.

It obviously will be very difficult to ascertain what belongs to whom. That is, even the Settlement Agency, which rigorously monitored the business operation of all firms in the Jugoskandik family was unable to do this, and its conclusion states that it is not possible from the documentation to ascertain what belongs to whom. At the same time, all the employees were mixed up, so actually it is not clear who did work for which firm, even though formally they were employed in one of them.

"No purchase of gold is indicated in the business books of any of the three juridical persons, nor is there indication of how the money arrived. Which means there are no traces in the books nor in the savings bank nor in Jugoskandik Petrol nor in Jugoskandik, D.D., so the Settlement Agency ordered that these juridical persons subsequently make an inventory of property on the basis of authentic documentation. So, there must first be a document on whom the gold was purchased from and whether it was paid for, and only then will it be entered, and then it will be clear who bought the gold and who owns it," Ristivojevic explains.

We will see whether Jugoskandik, D.D., attempts in appeal proceedings to prove that those valuables belong to it and in what way it does so, because the period for the appeal has not expired.

At the same time, at least for the present no ruling has come from the court on bankruptcy of any firm in the Jugoskandik family.

[Box, p 10]

We Do Not Know About the Investigation

"We have not been informed whether the police have started any investigation and at whose request against the responsible parties and other persons in Jugoskandik, D.D. But if the police do not supply us any information or notification of this, and we judge from

articles in the newspapers that their accuracy needs to be checked, then we will call for an investigation to be conducted, as required by the law," POLITIKA was told by Miodrag Tmusic, district public prosecutor, in answer to a question about what some newspapers have written about the events in Jugoskandik on the night between 10 and 11 March, when supposedly some people were paid big money.

We learned from unofficial sources, meanwhile, that the previous investigation into those payments and possible crimes perhaps committed in that connection is nevertheless being conducted.

Status of Collapsing Banks Discussed

93BA1043A Belgrade POLITIKA in Serbo-Croatian
15 May 93 p 10

[Article by B. Domic: "Dafiment Is Consolidating, Jugoskandik in Court, and Stefani Evaporated"]

[Text] Readers of ours who are depositors of Dafiment Banka and Jugoskandik, but also of a number of other savings banks, which more and more frequently are closing their doors to their customers, are every day calling us and asking: What is happening with this or that bank?

That is, the depositors obviously cannot get at first hand information of decisive importance to them, and one of them, for example, brought no fewer than 19 telegrams which he had sent to Dafiment Banka asking what to do, but to this day no one has answered a single one of them.

That is why yesterday we tried to learn what is actually happening in these banks and savings banks, which until just recently were the most popular and which for all practical purposes have already been shut down for days or weeks.

"What is new in Dafiment Banka, which after the May Day holiday, more than 10 days ago, closed its doors to depositors?" was the question we put yesterday to Dr. Slobodan Komazec, who at the moment is the executive director of that bank.

"We are working full force along several lines on a program adopted by the consolidation team," Professor Komazec answered us. "And in order to provide additional funds for the bank," he added, "we are in everyday contact with business firms and the Central Bank."

More Information Next Week

From what he said, for that program to be realized, an examination must first be made of obligations to depositors in the bank with respect to balances and interest on dinar and foreign exchange savings, and this job is not easy, nor can it be done quickly, in view of the number of depositors.

"It is a question, then, of several parallel activities (on a 42-point program), when we do not know which of them is more important to the bank's future and business operation," Professor Komazec said. He added that all the necessary documents have at the same time been prepared for the bank's new business policy—bylaws, business policy for 1993, interest rate policy, the relationship to the personal sector, the policy concerning funds attracted in the economy, the bank's new organization, and the new personnel policy.

Our informant also mentioned that figures have already been obtained on the structure of savings depositors and dates for payment of their deposit in several of the main offices. At the same time, he promised that more information would be provided at the beginning of next week about what is specifically being done in the bank.

But it is not just the depositors of Dufiment Banka who are waiting for their money, but also those who have made deposits in numerous savings banks. Among those made popular by high interest rates are Aleksandar Banka and Inter Stefani, which ceased operation in the past few days: the first supposedly because of an armed robbery, which was not registered with the police, and the second because depositors exploded a bomb in front of it.

The Owner of a Savings Bank Is a Former Cleaning Woman

The only piece of news for depositors in these two savings banks is that Stefani Aleksandar "vanished" to parts unknown; that is, two days ago she disappeared from her apartment. Because the savings banks, which will bring grief to a great many gullible people, are not operating, yesterday we tried once again to learn something more about them.

We were told in the District Economic Court that the Aleksandar-BNK Savings and Credit Agency was established by two juridical persons, more precisely, by enterprises for production, trade, and services at No. 18 Omladinske Brigade in New Belgrade. These are the firms ABS and SUN, which together formed that agency on 7 September of last year; their legal representative, states the court register, is Branka Demic, whom we were unable to reach.

Stefani Aleksandar, from what we have learned from people who knew her, worked first at Jugoskandik as a cleaning woman, then completed her training in the rapid turnover of money as a street dealer, and some say that she also engaged in illegal trade, and then opened her savings bank.

A few months ago, when we wrote about the dubious savings banks engaged in illegal transactions in an article entitled "Stay Away From the Quasi-Banks," she called us in the editorial offices and asked us to come and see "that there are savings banks that operate within the law." She also stated to the other media that it never

occurred to her to flee regardless of what happened to the other private banks and savings banks.

Stefani then asserted that she had the money to pay all the depositors, "but they had to be patient until all the damage was repaired and the time lost made up after the explosion in front of her office in King Peter Street." That is little consolation to the approximately 30,000 depositors, which is the estimated number who deposited their money in this savings bank, which now has no owner.

But a few months ago, when the savings bank began operation, Stefani telephoned her former roommate in the United States, from whom earlier, when she did not have money, she would borrow clothes, and told her: "Come now, I have money, you just see what kind of clothes I have bought. We'll have a great time."

Data on Karic Bank Operations Given

93BA1047D Belgrade EKONOMSKA POLITIKA in
Serbo-Croatian 26 Apr 93 p 35

[Article by Vladimir Grlickov: "Karic Bank Belgrade: Security Fee"]

[Text] *The introduction of a fee on nontime deposits of foreign exchange is calculated to stimulate time deposits and bigger investors, but also to pay the costs of the bank's security and liquidity; does limiting dinar interest rates make it easier to surmount difficulties compared to other banks?*

Karic Bank's level of foreign-exchange savings is not high (around \$60 billion), probably because it did not join in the race to attract massive amounts of investment through enormously high interest rates. But the relatively small amount of foreign-exchange deposits is not proof that the bank has fallen behind others in its dealings with citizens. On the contrary, providing security and liquidity in its relations with depositors, at a time when banks with major and massive savings deposits are finding it impossible or increasingly difficult to do so, demonstrates the appropriateness of the frugal policy that it has pursued in relations with citizens since its founding. Through its latest decision concerning interest rates on foreign-exchange savings of 8 April, Karic Bank showed that it is remaining true to that policy: The level of interest rates corresponds to the domiciled rates. Moreover, the additional 2 points of stimulation are not present, which the bank has the right to apply in accordance with the latest regulations on limiting interest rates.

Besides this specific reduction in interest rates on foreign-exchange savings, which will not affect the continuous, modest trend toward growth in savings deposits, Karic Bank has also decided to introduce a special fee on savings. The fee would be 1.5 percent on sight deposits, which would mean in practice that on this type of investment, with certain types of currency, the bank would not pay any interest whatsoever. The fee would

not be paid on time deposits, which should in turn favor bigger investments, which is understandable in terms of binding money to the bank for longer periods of time. At the same time, the bank would also not pay a fee on nontime deposits of over 10,000 marks.

None of this means that the basic goal of Karic Bank is to reduce the foreign-exchange costs on savings. Admittedly, it has never achieved exclusive earnings only to pay out high interest rates from them (it operates on a percentage and pro mille of earnings, not on an overnight profit of more than 20 percent), whereby it has even been alleged that this is being taken too far, the argument being that savings account for too little of the bank's profit. Clearly, the relatively low expenses due to savings on interest should not be neglected, but its basic intention is to be faithful to the policy of stimulating large foreign-exchange investments, with long-term commitment of the savings to the bank and guaranteed security and liquidity. The price paid for this is the relatively low interest rates and the fee that is paid on foreign-exchange savings under the bank's latest decision. "Without this price, there is no security and liquidity; moreover, we are living in a time of declining profits and unsold goods and services, which are placing some banks in the unfavorable situation of being unable to pay out savings," says Zoran Vasic, the vice president of the Karic Bank.

Clearly, another type of arrangement should be mentioned in addition to the transactions in foreign-exchange savings and in savings and the fee paid out by the bank. Through an agreement with U.S. funds, Karic Bank is paying out foreign-exchange pensions from the United States, whereby the recipients are Yugoslav citizens. Since January, around \$2 million has been paid out. Backlogged pensions that were halted because of the blockade were sent in March. The bank charges a fee of up to 3 percent for this type of service as well; the total fee for checks and cash payments is 7 percent.

As far as the current limitation on dinar interest rates is concerned, officials at Karic Bank assert that this regulation will favor them as well, but not as much as others who have "stuck out" with their enormous interest rates. In any case, it is easier to tolerate a lowering of interest rates from 80 to 54 percent than when the starting level is 250 percent, for example. It remains to be seen how the bill for lowering interest rates on loans will be paid, especially because agreements concluded with depositors at significantly higher interest rates must be honored.

Yugoslav Businessmen Establish Firms Abroad
93BA1047C Belgrade EKONOMSKA POLITIKA in
Serbo-Croatian 26 Apr 93 p 23

[Article by R.O.D.: "Our Businessmen in Hungary"]

[Text] After the sanctions and economic blockade were imposed, the process of opening our companies abroad was intensified. Of particular interest to our businessmen were former socialist states, especially Hungary, although in recent months its leading position has

been under threat from the Czech Republic and Slovakia, while Albania too has been "discovered" as a free and democratic state in which serious business can be established.

People who are well-acquainted with this problem, such as Subotica attorney Borislav Djanic, a specialist in opening companies in Hungary, speak of approximately 1,000 such firms.

The three cities in Hungary where the largest number of our citizens' companies are located are Szeged, Kecskemet, and Budapest, says Djanic. Of the total number of "our" companies in the neighboring state, more than 50 percent are in Szeged, although the largest and most significant company is in Budapest. There are many reasons that Hungary has become very interesting to our business people, but the main ones are the very liberal regulations and small amount of capital investment needed to set up a company, even though taxes and duty are much higher than in our country. For example, simple notarization of a signature costs 60 to 70 marks, a sum of 100 marks must be provided every three months for a bank account, etc. Naturally, Yugoslav legal entities cannot establish companies in Hungary because of the UN embargo, but for that reason they are set up by physical persons, which actually makes them Hungarian companies that can do business around the world unimpeded. In this way, we are opening a window on the world, which allows us to continue with our business and work.

Our citizens—that is, foreign business people—have the opportunity to open all sorts of companies in Hungary: a joint-stock company, which requires an investment of 200 marks, or a full-liability company, in which 20,000 marks must be invested. Naturally, there are significantly more joint-stock companies, because for that type of company the total assets must be guaranteed, but since such assets are practically nonexistent, the risk is also minimal. However, full-liability companies are also not uncommon, especially manufacturing companies, for which 10,000 marks must be deposited with the court prior to registration, with a further investment of 10,000 marks required during the first year of operation. The deposit can be used the very next day after the work and residence permit is issued, i.e., as soon as the firm is registered.

"Our businessmen are starting out cautiously, meaning that they are opening joint-stock companies for trade and import-export," says Djanic. Practice shows that our people adapt quickly and start out very successfully, significantly more so than the local Hungarians. The reason is that our new business people are better educated and more accustomed to the market-based way of doing business, and they know foreign languages, at least enough to do business.

The Hungarian state is doing plenty to attract foreign capital, but has also been encouraging its citizens to get involved in private enterprise. Of particular interest is

how it promotes the hiring of unemployed workers. Specifically, if workers are hired from the employment exchange, the state pays their personal income for one year. Our business people have already begun to take advantage of this benefit and opportunity, so that there are cases where as many as 20 Hungarian workers are employed. It is also highly advantageous to set up production, because a large number of factories have shut down, so that work space and machines can be bought for a small amount of money, while, as we noted earlier, no expenditures are necessary for the labor force during the first year.

"As far as the actual procedure for opening companies is concerned, it is extremely simple and quick," says Borislav Djanic, whose law office has helped around a hundred businessmen to open firms in Szeged, Kecskemet, and Budapest. In principle, it is possible for someone to do everything himself, but it goes much faster and more efficiently with the help of a local attorney, because language is still a major barrier. A power of attorney must be filed with the notary at the Szeged Court, and then everything is in order. However, if the person is already "on the scene," then with a small fee paid to the attorney the entire transaction can be concluded immediately. The majority of our people are opening firms in Hungary out of business considerations—to carry on with and develop the work that they had here in this country—but there are also other motives. For example, to buy a good car or even a house, office space.... Because when a firm is opened, a work and residence visa is issued, and that qualifies one to buy a car without tax and customs duty, to assume a lease....

Firms Awaiting Consumer Credit Approval

*93BA1043E Belgrade BORBA in Serbo-Croatian
12 May 93 p 14*

[Article by S. Jovicic and J. Putnikovic: "Inventories Sold Out in Six Months"]

[Text] Furniture, sound systems, kitchen appliances, but also leather handbags, shoes, clothing accessories....in short, all articles which otherwise are too expensive for the average consumer's pocketbook, will perhaps soon go on sale for credit. The condition is that the government accept the appeal of the Economic Chamber and approve a new printing of the money necessary to reintroduce consumer credit.

This move, business executives believe, not only helps consumers to buy under present conditions fabulously expensive, but nevertheless necessary, durable consumer goods, but also brings about the necessary conditions to prevent the shutdown of the wood, textile, and leather industries, as well as producers of building materials, sound systems, and household appliances.

"In addition to purchases of furniture, kitchen appliances, and sound systems, for example, people at this point also find it too expensive to buy shoes and suits.... Most of these articles cannot be purchased even with two

or three checks, because usually they are more expensive than two average monthly paychecks. However, with six-month credit and a somewhat lower rate of interest, sales would certainly go better," says Djura Vrzic, deputy director of Centrotekstil, who mentioned that instead of the present interest rate of 74 percent, the interest rate on consumer credit ought to be about 20 percent.

Explaining why Centrotekstil is interested in the introduction of consumer credits, Vrzic said that this import-export house is investing 200 billion dinars a month in its own production. Because of reduced sales, however, they now have a 25-percent monthly growth of inventories. Compared to January, inventories in the store-rooms of Centrotekstil have doubled.

Forecasting even a further drop in the physical volume of sales, because even now a man's suit costs between 8 and 25 million dinars, a woman's outfit from 6 to 20, a leather jacket from 17 to 35, and a woman's purse from 10 to 25 million, Vrzic says that the trade sector will stop building up inventories and will cut back purchases from producers. This will then automatically halt production in these industries, which are normally exporters whose productivity would certainly be welcome once the sanctions are removed.

For Slobodan Stojanovic, marketing director in Simpo, however, consumer credits are not just a straw to grasp. He reminds the responsible officials in the government that in the countries of West Europe credits like this are much more than an ordinary commercial activity—they have importance both to the economy and to social welfare.

"Simpo is a supporter of the idea of consumer credits both as a manufacturer and as a retailer. If we compare our salaries and prices, credits are inevitable. Incidentally, in the rest of the world, indeed in countries with a much higher standard of living, furniture is purchased on credits with terms from 18 to 36 months. Earlier we had the Simpo Consumers' Club in which we granted credits for 12 months. Then someone remembered that this encouraged inflation, the repayment period was shortened to six months, and then it was stopped by a decree of the federal government. The sales of our products have fallen off only negligibly. People are either selling their old foreign exchange savings and investing that money in furniture, or they are simply using the sudden flights of the German mark and buying during the period before the price levels out, so that we have demand that comes in waves," Stojanovic says.

Stojanovic also reproaches this government for what he considers to be the excessively high tax on furniture—all of 25 percent. Citing the example of the countries of the European Community, where the tax rate is between 14 and 18 percent, he said that these countries are getting more money from taxes, because the lower prices of furniture increase sales. And higher turnover ultimately means larger tax revenues for the government treasury.

In France, for example, the sales tax is between 14 and 16 percent. Consumer cooperatives make purchases and provide credit financing, and the customer can also take credit from the bank. The stores themselves offer certain reductions for cash payment, but they also sell goods on the installment plan.

So-called large families, which have more than five members, have special transportation reductions, price discounts, and even special stores in France. There are also specialized stores for young married couples starting out to furnish their apartment, not just starting families. They get price reductions on the basis of their marriage certificate. There are also special credits and reductions for young people between the ages of 18 and 25 who are not living with their parents. It is simply a matter of collecting less tax from all of them for the goods they buy, and the government refunds this to the stores from its own budget.

[Box, p 14]

The Banks Are Waiting

While JIK Banka and Invest Banka, according to TANJUG, are waiting only for the necessary information from the competent financial institutions to become fully involved in the business of granting consumer credits, Vitomir Janjuz, director of Kreditna Banka Beograd, says:

"We will be happy if more money is printed, because the bank would earn a certain percentage on the consumer credits that might be granted, because we are 'cramped' in our business operation by the most recent measures of the National Bank of Yugoslavia."

Users of Primary Issue Money Discussed

93BA1045A Belgrade POLITIKA in Serbo-Croatian
15 May 93 p 11

[Article by A. C. K.: "Little New Money for Everyone"]

[Text] *The 2,000 million dinars in funds approved for loans from the primary issue for the second quarter are insufficient, businessmen think; textile, leather, and footwear producers are particularly bitter because they need the funds promised to them only in June, in the amount of 1,000 billion dinars.*

Primary issue funds could be printed night and day, but even then they would not be sufficient, judging by the appetites of businessmen. That is the impression given by yesterday's meeting of the Serbian Chamber of Economy, at which, in addition to implementation of the Chamber's positions and proposals for financing special programs from the primary issue funds, there was also a discussion of the activities in implementing substitution programs in the republic's economy.

The directors of large socialized systems, but also successful private firms, all with their own arguments, criticized the list of specific firms that were promised

funds from the primary issue. Not even the Serbian Chamber of Economy officials neglected to comment that most of their proposals had not been accepted by the Federal Ministry of the Economy. Specifically, the total volume of funds allocated for loans from the primary issue—2,100 billion for the second quarter of this year, of which 1,100 billion is for production for the domestic market, and 1,000 billion dinars is for stimulating export production—is too narrow for these justified requirements of the Serbian economy.

According to data from the National Bank of Yugoslavia, through 10 May funds in the amount of only 200 billion dinars were approved from the primary issue for special programs, namely 100 billion each for the automobile production program at Zastava in Kragujevac, and Sartid in Smederevo.

The fact that textile, leather, and footwear producers were not among the recipients of loans from the primary issue and that 1,000 billion dinars in funds were only promised to them in June caused particular annoyance among the businessmen, and Milos Dimitrijevic, director of the Branko Krsmanovic fabric plant in Paracin, was even provoked to call upon his colleagues to strike on behalf of the 200,000 people employed in this branch of production, which, as he claimed, has a market both within and outside the Federal Republic of Yugoslavia, but does not have capital.

Also annoyed were representatives of the private sector, who, in spite of valuable results achieved in substituting for many products essential for the domestic economy that were previously imported, could not, as they noted, even peek into the list of recipients of loans from the primary issue. They viewed this as an injustice, in view of their contribution to the Serbian economy, and characterized the fact that one private firm, Stankomerc, was nevertheless on the list, with 65 billion dinars proposed, as a political measure and not a financial one, since, as they emphasized, that firm was building apartments for many prominent politicians from the area of the former Yugoslavia.

A proposal was also sent from the meeting of the Serbian Chamber of Economy's presidency to the government of Serbia that it consider the businessmen's request that tax obligations be reduced by the value of the substituted production for all enterprises that were carrying out specific substitution programs this year.

Savings Deposits Declining Due to Regulation

93BA1025B Belgrade POLITIKA in Serbo-Croatian
13 May 93 p 9

[Article by B. Dumic: "Buying Foreign Exchange With Surplus Dinars"]

[Text] The time when the banks competed as to which would pay the higher interest on dinar deposits and the race of the public wherever they would earn more is

behind us. Under the Central Bank's most recent regulations, as is well-known, interest rates may not be higher than 54 percent, while daily inflation is about 3 percent, so no one any longer has any interest in depositing dinars to make money.

Which leads to the question: Where to put this month's money, which has become a constant feature of ours; there is no point thinking about last month's money. The limitation on interest rates of both private and government banks, that is, has prevented keen competition, so that all those who have been happy to deposit their savings no longer have any motive to put them in time deposits at a rate which is far, far below the rate of inflation.

Savings—With No Reward

To tell the truth, dinar savings in government banks have been in decline for a long time now, above all because of the low interest rates, that is, because of competition from the private banks. Because of the low interest rates, if we take just one example, in the first three months of this year savings placed in time deposits were off drastically in Investbanka. In the total funds which the public has in this bank, which is one of the largest, sight savings deposits represent all of 95 percent for that reason in this period, when treasury bills are excluded.

To be sure, the impoverished public has less and less money to save, because personal incomes are also lagging far behind inflation. Those who nevertheless manage to save at least something have realized long ago that buying foreign currency is the only way to preserve the value of the money. And even those who have the good

fortune to have many more dinars are buying apartments and real estate which, as is well-known, will be more and more expensive tomorrow.

All in all, depositing dinars in banks for saving, more accurately, to make money, is the last option. But there is every prospect that this will really not affect the business operation of the banks, because their giro accounts show satisfactory liquidity, which means that they have money, but they obviously have nowhere to put it except in foreign exchange. That is probably the only explanation for the fact that however much money is withdrawn from the central bank, there is never enough of it for dinar payments.

Of course, those who are deferring consumption and saving must also be rewarded. That reward is called interest, and it must be greater than the rate of inflation, because that is the only way to protect the dinar and obtain some kind of earnings. It is strange, then, as Dr. Predrag Jovanovic Gavrilovic, professor and dean of the School of Economics at Belgrade University, confirms, that the National Bank has adopted interest rates which are considerably below the rate of inflation.

Even the Bankers Are Protesting

The Association of Yugoslav Banks has already sent an objection to the National Bank pointing out the illogical nature of these low interest rates. There have been suggestions that the Board of Governors of the National Bank of Yugoslavia will soon, perhaps even today, adjust the interest rates which obviously are neither stimulating the public to save, nor are they encouraging the banks to put money in the right places.

In any case, for a long time it has not paid to keep money in a current or giro account, and that is even truer now. The rates of interest on sight deposits, as can be seen from the table, range from 5 to a maximum of 20 percent per month.

Monthly Interest Rates on Savings Deposits

Bank	Sight	30 Days	90 Days	6 Months	12 Months
Investbank	10	40	46	48	50
KBB	5	51	52	53	54
Jubanka	5	50	54	54	54
Beobanka	10	54	54	54	54
Slavija	6	40	44	46	48
Vojvodjanska Banka	5	35	50	51	52
Union Banka	20	38	48	52	—

The limits on the allowed overdraft from the current account also vary from bank to bank. Thus, Jubanka and Slavija Banka have increased the loan allowed to 7 million. At Slavija Banka, the interest is 74 percent on a loan, but 129 percent on an overdraft exceeding the amount allowed.

Beobanka allows a maximum overdraft of 6 million dinars at an interest of 74 percent, while the rate of interest is 90 percent on an overdraft beyond that limit. That bank is also offering treasury bills with a 90-day

maturity at a monthly interest rate of 54 percent, and an interest rate of 25 percent before maturity. In Vojvodjanska Banka, a loan in a current account in the amount of the personal income bears an interest of 70 percent, and the punitive rate of interest is 74 percent.

Be that as it may, dinars are only good when they are spent at once or when they are turned into marks, which are getting more and more expensive. It definitely does not pay to put them in a time deposit or hold them in an account until better days.

Reasons for Shortage of Drugs Explained

93BA1047B Belgrade EKONOMSKA POLITIKA in
Serbo-Croatian 26 Apr 93 p 15

[Article by V. Dukanac: "Drugs: Drama 'In Vivo'"]

[Text] *What are the reasons for the ongoing shortage of drugs? Is the arrangement between the state and the pharmaceutical industry concerning drug prices enough to ensure drugs on the domestic market as well? Today, the patient foots the entire bill for drugs.*

These days, no one needs any further explanation of the Golgotha of our patient population with prescriptions in their hands. Periodical drug shortages have shaken the domestic market for an entire decade now, but lately all indications are that this is entering its final phase, when even the imagination of the best masters of horror would have trouble conjuring up the darkness that will follow. Everyone is issuing warnings about this—the pharmaceutical industry, pharmacists, wholesale druggists, physicians, and even official government agencies. But always with different theories and arguments. The worst thing is that every approach that is even vaguely serious always comes back to the same basic story, which unfortunately, with or without the sanctions, remains primary: Drugs are available, and they could be available regardless of all the problems, but there is no money to buy them with.

Specifically, the largest share of the basic assortment of drugs from the so-called priority list (which means that the drugs can be obtained from a prescription that is completely covered by health insurance) continues to be provided by our pharmaceutical industry. These drugs, we were told in a lengthy interview (with will be published in a subsequent issue of EKONOMSKA POLITIKA) with Mr. Radomir Stojicevic, the president of ICN-Galenika and of the Pharmaceutical Industry Group of Yugoslavia, will be available at least for the next two months, despite all the production difficulties. There has never even been a shortage of these drugs on the domestic market, only a shortage of money to buy them with, Mr. Stojicevic states explicitly, and he should be believed, because ICN-Galenika currently covers half of Yugoslavia's demand for drugs.

Right now, the situation on the domestic market can be summarized as follows: State pharmacies, where drugs from the priority list can be obtained directly and free of charge, have long since all but ceased to exist. Because besides the major claims by health-care funds for drugs that have long since been dispensed, they are unable to meet the advance payment conditions set by factories for new purchases. Wholesale druggists are in the same situation. And the once markedly well-supplied private pharmacies, caught between enormous inflation, domestic regulations, and the embargo, are also giving up. For the most part, they are keeping medicines that can be sold immediately, because they procure drugs for cash and can level out prices only with new purchases,

while the high daily inflation rate eats up their statutory margin—and thus their profit—in a couple of days.

Clearly the worst situation is in health-care institutions. Hospitals have long adapted treatment to their patients' ability to pay for the drugs. But when serious pathologies are involved, the treatment of which generally involves expensive drugs, then with a population that is so impoverished we actually become the audience of a drama "in vivo." This is true even if we do not put all of this in the broader context, which includes the situation with defective medical equipment, for which spare parts are almost impossible to procure due to the embargo, at least according to the doctors. All of this delays timely diagnoses and makes treatment even more expensive. One must also keep in mind something that Mr. Stojicevic pointed out frequently in our interview, "that health care today is the only activity in the country that is operating at full capacity, 24 hours a day"—with the additional influx of patients, especially casualties from war-torn areas. The fictitious republican budgets do not cover most of these expenses, while the economic decline is pushing health-care funds into an increasingly helpless situation, especially if one bears in mind that there are more and more people on mandatory leave who receive their wages at home, directly from republican funds, whereby they avoid paying health insurance. In the overstrained social situation, the Serbian republican government at least (and the situation is similar in Montenegro) has not had the guts to undertake a more serious curtailment of rights, nor, at least as far as drugs are concerned, to introduce participation for drugs on the priority list, through which at least 10 percent of that bill could be realistically covered. Some of its moves are simply cynical, such as the recent decision to give patients who use drugs from the list in question the right to a refund for this bill from the Health Insurance Fund. Specifically, under such conditions of enormous daily inflation, getting reimbursed for some bill a couple of months later is practically meaningless. In this way, the health-care funds have almost completely eliminated the coverage of drugs by health insurance without publicly acknowledging it. At the same time, the drop in the purchasing power of the population means that the sale of drugs on the domestic market is slowly but surely declining, and according to the figures from the end of last year and beginning of this year, that drop is already 20 percent.

The fact that the pharmaceutical industry has reached an agreement with the federal state to set drug prices in accordance with foreign domicile prices—at an average level of 35 percent instead of the intolerable 10 percent of foreign domicile prices—means little to domestic factories in the current situation. If one bears in the mind that not a cent has been earned from the approved right to redeem foreign exchange for the import of raw materials, it is clear that the production of drugs is also falling off. ICN-Galenika has already sent one-third of its workers on leave. Thus, if any of these basic issues are not resolved, Stojicevic says, "the state can requisition

our stockpiles and all our factories, but the question remains: What will we all do tomorrow?"

Misconduct in Food Sales Exposed

93BA1025C Belgrade POLITIKA in Serbo-Croatian
11 May 93 p 17

[Interview with Bora Milacic, chairman of the city supply command center and deputy prime minister of Belgrade, by M. Nikic; place and date not given: "How Food Has Been Misappropriated"]

[Text] The most recent Belgrade government has on several occasions called upon the republic authorities to "tighten control and stop" the chaos and shortages on the food market. The government headed by Nebojsa Covic, M.A., has established a supply command center whose reports indicate that not only anarchy, but also republic statutes are making it possible for foodstuffs to be sold on the market to "parts unknown," especially flour, with the result of shortages and almost unimaginable prices. The command center first demanded that provisions be included in the Decree on Bread on the monitoring of delivery, but recently Prime Minister Covic enigmatically referred to events on the market as "high-level misappropriations of food in Belgrade."

[Nikic] What "misappropriations" and of what size are known to the capital's supply command center?

[Milacic] At what level there have been the greatest abuses of regulations and of the situation on the market I am unable to say, but it has been shown that big money is being earned if someone holds back immense quantities of basic foodstuffs in the warehouse, cleverly preserves them as inventories, and sells them outside the price structure prescribed by the state. The earnings are all the greater because cheap credit is furnished in advance for that purchase through domestic banks. Someone has been helping someone else in this business. But this is a matter for the republic inspectorate with jurisdiction over both socialized and private firms, says Bora Milacic, chairman of the city supply command center and deputy prime minister of Belgrade.

[Nikic] It has been suggested that the city is being supplied at "second or third hand."

[Milacic] As soon as there is a shortage of something, it is easy in our country for the price made official by a government decision to be "added to." The situation on the market has made it possible for the food that ought to be sold directly from republic commodity reserves to producers and sellers to be resold. Thus, from buyer to buyer, costs allowed by law are added to the price. They are loading, unloading, and the margin.... This has made it possible for flour to be sold in some places at a price twice as high as the prescribed price. But before that there were shortages. On the route to retail sale, flour has mainly ended up in private bakeries. Instead of making bread, they store the flour and wait for better times. They sell rolls and other baked goods whose prices in terms of

the flour consumed are more expensive than bread. In order to show that they are fulfilling their obligation to make bread as well, the private operators buy negligible quantities of bread from the socialized combines. They spend nothing on production and skim off the cream from the baked goods!

[Nikic] Can your staff present precise figures on the damage caused the capital by all of this?

[Milacic] The city is not getting from the private operators half of the quantities to which it is entitled and needs. This says enough about the bind we are in between abuse of the law and the ever greater needs of our capital. And when that shortage is reinforced by the various "hands" through which the bread passes, it turns out that we are short nearly 500 tons of flour earmarked for Belgrade a month and a half ago from the republic commodity reserves. The city government furnished directly 1,500 tons of flour from reserves. In so doing, we relieved producers of having to run to Novi Sad 100 times because of various formalities. We also rented storage space, we paid for all the flour, and we provided transport. In the end, we managed to transport 1,000 tons to the city. As for the other 500 tons, they sent us from mill to mill, making excuses that it had to be milled, that they lacked vehicles, first one thing and then another.... Until at the last moment, we "pulled" 500 tons from city supplies for an acute emergency. Then we got 2,000 tons for general sale in PKBT, Centroprom, at the lowest price from the republic reserves, but 50-kg bags were supposedly the only possibility. Imagine a retired person trying to haul home these "cheap bags" from the store. A decision was made, then, for everything to go to the private operators. So then we went in the circle again.

[Nikic] There is no cheap bread in the city even for the neediest people. The supply command center itself has announced this. Do those responsible for supply have at least some solution?

[Milacic] Ever greater difficulties on the market will be with us as long as we have rigid price administration, which is a holdover from the past, but has really manifested itself only in the present. What we mean by rigid or partial price administration is when we pay a price of 8 dinars for a commodity because it is important to life and we feel that is the highest acceptable price, instead of the 10 dinars that it might actually be worth, and at the same time we do not say who is going to make up those 2 dinars of difference and how this is to be done. It is logical that the one who loses resorts to possible ways of making up the losses, creates a shortage artificially and an unreal price. Thus, the producers have figured to make up the loss in the production of cheap bread by producing only the special bread whose price is higher. Once again the circle is closed. That is why we have proposed that the republic bread decree be amended to state that the 136 kg of bread produced for every 100 kg of flour delivered include by law 80 kg of the basic bread and 56 of the special bread. The decree should also regulate the way additional payments

and collections are to be made for bread. We are proposing that the economic price be prescribed and that welfare cards be established for the neediest people, and they could use them to get the cheapest bread.

[Nikic] Will the survival programs that have been envisaged solve the problem of the food supply?

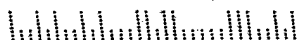
[Milacic] The survival program is being drawn up to cover basic communal life that is in the jurisdiction of the city. The most important powers and decisions on bread, food, and health are in the hands of the republic. So long as that is the case, we are only drawing up programs that will make it possible for us to implement republic decisions on supply.

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