Why the Balkans Disaster?

The IMF, NATO, and the "Washington Consensus" economic policies lead to the breakup of nations and war. A firsthand report by Elke Fimmen.

It is not only in Macedonia, where the Anglo-American policies of NATO and the International Monetary Fund (IMF) are continuing to break up the nation, but throughout the Balkans, they are creating a constantly increasing potential for ethnic and religious warfare. The dangerous Balkan disasters are, at root, disasters of economic policy—"reconstruction" policies which forbid economic reconstruction. Those policies have been intentionally and strictly imposed from the outside, by the so-called "Washington Consensus" enforced by the IMF, World Bank, and NATO.

As a matter of policy of a strong Anglo-American financial faction, stable, sovereign, and prosperous countries simply are not desired in the Balkans, as in other regions of Eurasia. The last sign of any different policy was President Clinton's April 15, 1999 San Francisco statement envisioning a Balkans "Marshall Plan" as an exit strategy from the NATO air war against Yugoslavia in 1999. Clinton's statement, which reflected Lyndon LaRouche's ideas for Balkans reconstruction then being circulated (see *EIR,* Aug. 13, 1999), was never followed through against the completely contrary policy of the IMF.

As these disastrous policies have been imposed on the Balkans—on former Yugoslavia as a whole, and on Bosnia-Hercegovina with special force, since the end of Milosevic's war of aggression there—so they must be reversed from the outside, as part of a New Bretton Woods agreement and a Eurasian Land-Bridge development policy.

London's Geopolitical Policy

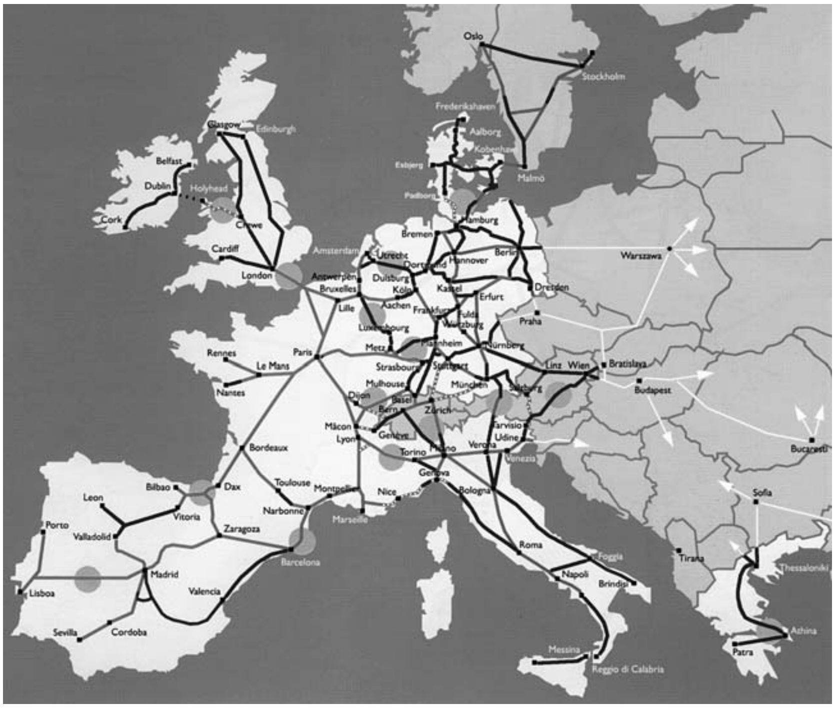
There are several reasons for the disastrous course the Balkans region has been taking since 1989: Because of its complexity, including religious factors, it has always been used as a detonator for tensions between Europe, Russia, and Islamic countries—exactly those forces which are emerging today as the "Survivors Club" against the global economic collapse, along the lines of Lyndon LaRouche's policy of the Eurasian Land-Bridge. Second, the policy of the Anglo-American "geopolitical" faction vis-à-vis Russia, is conveniently served by NATO's virtual military control over the whole region, which is important because of its closeness to the Middle East, and the Black and Caspian Seas area, including big oil interests involved.

For such "strategic purposes," it is not deemed necessary that the area be economically developed, but rather be turned into a depopulated glacis. Large parts of the native populations have already been driven out of the region either by "ethnic cleansing," or by the catastrophic economic and social conditions. Many of those remaining are drawn into terrorist networks and drugs and weapons smuggling rings, as has been documented by *EIR* for the case of Macedonia, Kosovo, and Albania (see "The New Colombia of Europe Grows in the Balkans," *EIR,* June 22, 2001). Unfortunately, continental Europe's policies in the Balkans region so far have, by and large, ideologically clung to IMF policies and capitulated to Anglo-American strategic designs, thus adding to the problem. We show here, focussing on the case of Bosnia-Hercegovina, how those policies have deliberately caused untold misery.

A completely different, peace-building approach was taken by Lyndon LaRouche since 1989. His policy has been consistently "peace through development," which is also the only way, after horrible wars, in which ethnic and religious hatreds were introduced, that long-term healing of wounds is possible. Only if there is a common future, in which every citizen can productively participate, can "ethnic" questions be solved. The historical lessons of how this can be achieved, are known: the principles of the New Deal under Roosevelt; for continental Europe, the historical example of the Kreditanstalt für Wiederaufbau (KfW, Germany's postwar Reconstruction Finance Agency), and its efficient conversion of Marshall Plan monies into productive long-term investments. This not only created the so-called "German economic miracle" after World War II; but in turn had an igniting effect on the economic recovery of the whole of Europe. The KfW itself offered, in 1999, to organize the credit for a Balkans "Marshall Plan," but was rejected by the IMF and World Bank, et al.

Lyndon LaRouche stressed the importance of a centralized economic reconstruction approach, in close coordination with the nations of the area. He warned, after the NATO air war: "It is not possible to stabilize the situation in the Balkans, if the current economic collapse in Europe is not halted—and vice versa. We need a centralized command for a 'crash program' in times of peace. Otherwise, the Balkans will for

FIGURE 1
1994: European Union Projects



The European Union's 1994 plan for development of new transport corridors—the "Delors Plan," which reflected LaRouche's five years of organizing for the concept. But note the absence of corridors planned in the Balkan states, because of geopoliticians' wars there. Worse, the same policies have blocked implementation of many of the corridors in Europe as a whole.

decades, and maybe even longer, rot in a spiral of death and degeneration." Specifically, LaRouche identified three main reconstruction elements:

"1. A multinational military-engineering authority, which must have authority and responsibility for the emergency basic economic infrastructure mission, and will serve, for the initial period of operations, as the agency primarily assigned for liaison with authorized private economic initiatives of reconstruction.

"2. A special financial facility, operating with independence from presently existing monetary and related institutions, and modelled upon the success of the KfW, for coordinating the funding of both the public and private enterprises of economic reconstruction. Otherwise, very little of what needs to be done, would ever be accomplished.

"3. A Private Contractors Authority, assembled in memory of former U.S. Secretary of Commerce Ron Brown, which mobilizes public and private vendors of materials and engineering services for support of the infrastructure-building effort, and on behalf of fostering development of private enterprises relevant to the mission of economic reconstruction" (*EIR,* June 18, 1999).

'Consensus' Against Economic Development

Such an approach must seem self-evident to any halfway intelligent and well-intentioned person. Did the "international community" push for such infrastructure development and rapid revitalization of destroyed companies? Did it insist on the priority of the creation of hundreds of thousands of new jobs? Did it establish a centralized system of long-term, low-cost credit lines? Did it, in the case of Bosnia and later Kosovo, insist on the centralized channeling of donors' money, as in the success of the Marshall Plan?

Not at all: Just the opposite policy was imposed, by the IMF, the World Bank, the U.S. Agency for International Development (AID), the European Union, the Organization for Security and Cooperation in Europe, and the thousands of non-governmental organizations (NGOs) which descended on the region after 1991. Their guiding star for economic policy throughout the last decade was the "Washington Consensus" of the same economic shock therapy which had been imposed upon Eastern Europe and Russia after the fall of communism. The Balkans "reforms" they insisted on were: Repayment of old Yugoslavia's debts to the World Bank, the IMF, and international creditors; slashing of social budgets and state investments in the real economy; rapid privatization of state companies and sell-off to foreign "investors"; and convertibility of the currency, enforced by inherently deflationary currency boards.

In the case of Bosnia, a foreign-controlled currency board was introduced and any credit generation by the Central Bank or government explicitly prohibited. All of the countries in the region have become victims of this monetarist approach, which ensured the constant economic decline of the region and enormous political and social instability.

It must be noted, that it was exactly this kind of IMF-imposed policy, which created the conditions for the breakup of Yugoslavia in 1990-91 in the first place. After banker Slobodan Milosevic's 1988 takeover as Yugoslav strongman, IMF shock therapy, privatization, and IMF priority on debt repayment created the centrifugal tendency for the dissolution of the federal state of Yugoslavia, and the social powderkeg for the nationalist frenzy which fed the aggressive wars of Milosevic against the other republics.

The decade of wars in the Balkans created a permanent wound in the "underbelly" of Europe, created tensions with Russia, and blocked any infrastructural development of this

The decade of Balkans wars has "blocked any infrastructural development of this crucial southeastern part of the Eurasian Land-Bridge, including the central European waterway of the Rhine-Main-Danube canal, which connects the Atlantic with the Black Sea region." Here, the canal in Germany, with one of the locks in background.

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KfW Approach for Bosnia Was Sabotaged

Most exemplary and easily documented is the conscious policy of sabotage of real economic development in the case of Bosnia-Hercegovina.

In the 1995 "Dayton" negotiations, Bosnian representatives fought to channel foreign donors' money according to the model of the KfW in the Marshall Plan, into the revival of the economy in a targetted way, with long-term credit lines and low interest rates. The idea was to establish a revolving fund, which would be able to use the donors' money—supposed to be $5 billion over five years—as a core capital for a rapid reconstruction approach. The Bosnian authorities proposed, that all financial facilities from outside should be concentrated in one facility and professionally managed for credit supply for agricultural production, transport, housing etc. Then, there could have been a complete documentation of where the money went, and of the chain of command.

As a reminder: Germany from 1948-52 received a total of $1.4 billion, and used it through the newly founded KfW mechanism, with known excellent results, including the integration of 8 million refugees from the East. Part of Germany's debt was cancelled in 1956; that part which was rescheduled, was later easily repaid from the increased tax income of the KfW-led economic recovery.

The exact opposite was done in the case of Bosnia: The World Bank and EU Commission created 16 so-called Sectoral Task Forces. Before any projects were even started, foreign "experts" earned lots of money in superfluous consulting studies. In fact, the preparatory work had been done already by the Bosnian experts themselves—in the crucial areas of transport, energy, and water supply. Bosnia had a considerable pre-war military-production industry, and former Yugoslavia had both industrial and construction experience and skills of an international class. But Bosnian officials had to accept "studies" by experts on agriculture from Australia, for water supply from the Sahara, for forestry from Canada, etc., who did not know the Bosnian situation, and thus based themselves either on Bosnian work, or were outright incompetent. The absurdity reached its height when an "expert report" by the World Bank was copied from recommendations for Ghana from 1965!

The considerable salaries for these experts and their staffs were taken from the international donors money. As one Bosnian official commented, "Of course, offices, chauffeurs, secretaries, lovers are very costly. . . ." The European Union's ratio was said to be 8:1; for each deutschemark of reconstruction, DM 8 disappeared in the hands of international organizations.

Three out of many examples suffice to show the "efficiency" of the international bureaucracy. In August 1997 (two years after the end of the war), the municipal waterworks in Sarajevo, the Bosnia capital, had no money to repair the war-destroyed water supply systems: An Austrian consulting firm had received the order to produce an "analysis" of the water supply system only in March of that same year. On April 21, 2001, the English-language *Bosna Daily* reported that, of the 430 bridges in the Federation of Bosnia-Hercegovina, 91 bridges remain damaged, and an additional 105 need repair as soon as possible. And the same issue bore the headline, "Thousands Starving in Tuzla." According to the head of the Tuzla Municipality (which is in the American sector), 2,000 families, or 8,000 individuals, do not have even one meal per day. The public kitchen feeds 350 people a day.

The Fight for a Federal Investment Bank

After two years of increasing chaos, which inevitably also resulted in the creation of a corrupted local structure, the Bosnian federal government finally succeeded, in 1998, in creating the Investment Bank of the Federation of Bosnia-Hercegovina. It was to channel the remaining donors' money into a credit pool for investments in the real economy. Its operational principle has been exactly modelled on Germany's KfW, to concentrate on financing real production and to use repaid credits immediately for the financing of new ones.

Despite bureaucratic red tape to get permission for its financing for project areas, imposed from outside, the Bosnian Investment Bank is today the sole institution which is providing affordable credit for productive purposes to the local community; private banks are demanding horrendous interest

The Bosnian government finally was able, in 1998, to create a national investment bank which is modelled on the "KfW"—Germany's postwar Kreditanstalt für Wiederaufbau, the core of Germany's "economic miracle." This Bosnian bank is denounced and strictly limited by the IMF and the "Washington Consensus."

rates, if credits are offered at all for productive purposes. The bank is operating projects for the government and also managing part of the long-term state debt, mostly to the IMF and World Bank. It has been operating with great success and made good profits.

But right now, the bank is waiting to be sold to international "investors"! The IMF, the World Bank, and U.S. AID insisted that the bank has to be privatized and sold, and this had to be agreed upon as a precondition for its establishment in the first place! The KfW method of operation was dismissed as "pre-historic banking," and "opposed to market principles." The supranational financial institutions insist that the state has no economic role.

This was the axiom in Dayton. In Annex 4 of the Dayton Accord, control of monetary policy was taken out of the hands of the government, and a foreign-controlled currency board took over the function of the Central Bank. Any possibility for the Bosnian government to create credit instruments for the prefinancing of productive investments, which would have increased the state budget, was forbidden.

In addition to this IMF attack on the bank, the demands for privatization of the remaining state companies were increased during 2000, including a credit embargo for anything which was still state-owned. A huge campaign to replace the "corrupt" nationalist politicians, who headed the state companies, or who had some control over them, was mounted, which resulted in the change of government last Autumn. Orchestrated campaigns against the remaining "pockets of nationalism" followed.

As of now, the fate of the Investment Bank remains open. The German Kreditanstalt für Wiederaufbau, which the Bosnians had asked to take over 51% of the bank, declined, obviously under huge political pressure from the United States and international financial institutions. After the end of the bombing war against Yugoslavia in 1999, the KfW had proposed to the Group of Eight Summit in Cologne, Germany exactly the same methodology, which LaRouche had called for in his June 1999 article. The countries in the region had enthusiastically echoed the KfW concept. But the "Washington Consensus" had emphatically vetoed it. The KfW back then was ready, due to its international experience, to lead a regional development program, which was supposed to be a "Balkan Fund," operating under a centralized management. It was to issue credits for investments in Kosovo, Bosnia, Bulgaria, Croatia, Romania, and Hungary. First priority would have been an emergency fund for urgent infrastructure investments, hospitals, etc. Then, an investment fund for all infrastructure areas, housing, and private firms, with 40-year credits at 0.75% and a grace period of ten years. As a next step, the KfW proposed to establish "Reconstruction Banks" in individual countries, which should quickly and effectively issue credits.

But this was vetoed by the "donors," and instead a "Stability Pact" was created. In the Summer of 1999, President Kiro Gligorov of Macedonia warned exactly of the present outcome: social and ethnic tensions rising with the lack of large-scale, centralized economic reconstruction of the area.

Destruction as Policy

On April 25, 2001, *Bosna Daily* reported: "The Treasury Ministry has finally defined all the country's international obligations in terms of foreign debt. Ministry data show that [Bosnia-Hercegovina's] debt is nearly $2.3 billion. BiH'S largest debt is with the World Bank, which accounts for 57% of the total debt. The majority of BiH's foreign debt is from the time before the war."

In December 1995, when the weapons had just been silenced, the World Bank had demanded that donor monies be used for "the elimination of arrears" to the international financial institutions as a priority. In its paper "Reconstruction at a Glance," the World Bank said, that the "substantial arrears, including to the International Monetary Fund, the World Bank and other international financial institutions, bilateral creditors, and commercial bank creditors" were to be assessed, to "enable Bosnia to normalize its international financial relations, while maintaining an *acceptable* level of imports and reserves."

The old debt outstanding—Bosnia's supposed "17% share" of the debts of old Yugoslavia—was just about the amount Bosnia-Hercegovina was promised as aid. The World Bank-specified repayment of old debts was to be ensured through "early and speedy privatization of enterprises and banks." The aim was to destroy any independent, state-owned enterprises and the banking system.

TABLE 1
Investment Credits of the KfW, 1949-53
(Millions of DM)

Coal mining	531.0
Electricity	835.3
Gas and water	86.0
Iron and steel	67.7
Other industries	495.2
Agriculture	466.3
Refugee housing	20.0
Fishing vessels	5.0
Housing	328.2
Mining	145.0
Oceangoing shipping	169.3
Canal shipping	9.4
Maritime and canal ports	14.6
Urban surface trains	24.7
Tourism	22.5
Small credits	0.2
Research	30.9
German Railway (Bundesbahn)	45.0
German Post Office (Bundespost)	20.0
Refugee firms	95.0
Export promotion	2.3

Germany's Kreditanstalt für Wiederaufbau (KfW) bank was able, with the aid of a ten-year debt moratorium, to create credits for economic reconstruction which far exceeded the $1.4 billion Marshall Plan aid from the United States to the bank, and to repay the debts after the moratorium ended.

According to the World Bank's report "rapidly accumulating arrears in wage and pension payments to government employees and pensioners," as well as "past state liabilities to households for lost foreign exchange desposits in the banking sector," would overwhelm the budget if the government were to take them on. The World Bank's dictate was: "In seeking solutions for settling the accumulated arrears and past liabilities, *every effort should be made to limit the government's use of domestic banking funds, especially central banking financing*." The World Bank, quite in contrast to its priority treatment of old Yugoslav debts, demanded that large amounts of these debts to the people, incurred during or prior to the war, be "written down, or written off outright, through schemes such as trading wage and pension arrears for foodstuffs and other aid."

As for investment priorities, as "elsewhere in Central and Eastern Europe," the World Bank said, increased output was likely to come from growth in the service sector and light industry established by private entrepreneurs. Only at the very end of a long list of priorities, did the World Bank mention "repairing basic public services and utilities, such as post and telecommunications, power and water supply." Not even a word about rebuilding basic infrastructure such as road and railways could be found in the report.

This continuing and rigid policy feeds the centrifugal tendencies in the difficult social and "ethnic" composition of the country. Those, like Lord David Owen or the German Christian Democratic politicians, who now proclaim the "unworkability" of a multi-ethnic Bosnia, provide the political justification for IMF sabotage of real economic reconstruction in the region. Why no economic development? The Anglo-American geopoliticians' intention was otherwise.

Global Collapse Means a Last Chance

The time for trust in "the good intentions of the international community" by the region's politicians and economists is running out, forced by reality on the ground, and a growing realization, that the power of the IMF and World Bank itself is diminishing in the context of the international financial disintegration.

Exemplary was a meeting in Mostar in December 2000, organized by "Forum Bosna," a Sarajevo-based Bosnian NGO. The meeting adopted an "Open Letter to the Bosnian and World Public," in which it called for an investigation of international aid policy, and "transparency of international organizations and their policies." It stated that "Bosnia and Hercegovina today is totally economically and socially dependent on donation aid. Unemployment and poverty are great. The economy has not been rebuilt."

Economists at the economic roundtable discussion did not mince words about the situation. Prof. Dragoljub Stojanov, a signer of LaRouche's Call for a New Bretton Woods, is on the Economics Faculty at the University of Sarajevo and currently heads the privatization agency for the canton of Sarajevo. He addressed IMF policy in very clear terms: "My attitude is, that the paradigm applied here is anti-development. . . . It is paradoxical, that, for instance, a foreigner lands at Sarajevo airport and, walking around the city, sees five U.S.-type supermarkets, sees a stable currency and no inflation, and concludes: Bosnia has made a tremendous success. . . . [But] if the gentleman would look deeper, he might see vast unemployment—almost 50%—industry working at 30% or less of pre-war capacities. Of the remaining 50% employed, around 70% are those in non-productive sectors. This means that only 20% of the people create revenue. Insolvency is enormous. As far as the real economy is concerned, there has been practically no move.

"We have a certain GDP," Stoyanov continued, "that nominally increases. . . . Nowadays, we calculate the whole service sector [in the GDP], something we did not do ten years ago. So, the real GDP, measured by the old methodology, would be maybe 25-30% lower. . . . I think, we will all agree, that a large portion of responsibility lies within us, our central and entity governments. . . . However, I think the interna-


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BOSNIA AND HERZEGOVINA

The EC reconstruction programme for Bosnia and Herzegovina *detailed by sector*

The EC SFOR Micro Projects:

Brief description

Year of commitment and budget Line	Project Description and Contractor/ Partner in brackets:	Contract status (29-Feb-2000):	Amount Allocated in EURO (Approximate)
1996 Obnova	SFOR Micro Projects:	Completed	1,500,000.

In opposition to the KfW approach, which was available after the Bosnia war, the European Commission and the IMF insisted on many hundreds of "microprojects" administered by a large and expensive bureaucracy, funded only in the millions of deutschemarks and accomplishing no real infrastructure reconstruction.

tional community is equally responsible. Why? Because everything was done under its supervision, and as far as I know, the privatization program was done under instructions of Pricewaterhouse, and that program is catastrophic. . . . Our economic strategy, which we proposed three years ago, was not accepted, . . . because the majority of our economists thought, if someone wrote something against free trade and free market, they should throw it to be nearest trash bin. We were very severely criticized by the IMF and World Bank on that occasion."

Stoyanov called for the formation of "certain institutions—I conditionally name them funds for development and restructuring. There we have a problem with a certain part of the international community, which is unable to grasp the concept, and that immediately treats us as advocates of a certain strong state [and] corruption. This has nothing to do with reality. . . . Insisting on a free market in the full sense of the term, insisting on full convertibility of the currency for capital and currency transactions, is utopian. Whoever advocates this, either does not understand reality or has some other aims."

Lastly, he pointed out, "without economic development, there will be no return of refugees. That is why growth and development should have been the first priority. Then we could count on return of the people to their homes, not vice versa."

Reconstruction 'Out of the Question'?

Dr. Hasan Muratovic, economist and engineer, and currently Bosnian Ambassador to Croatia, also participated in the debate. He served as Prime Minister of Bosnia-Hercegovina from 1996-98. Dr. Muratovic pointed out, that the country does not have a Central Bank, but only a currency board, which cannot give guarantees for foreign loans. "Companies are also not able to get loans, because no one can give them guarantees. The second source is foreign direct investments. They can come from two different sources: by selling state-owned companies, or by development of new enterprises. Foreign capital that buys our companies, is not equal to foreign capital that creates new enterprises. Third, money can be obtained from Central Bank activity—the bank we don't have."

Well-known Zagreb-based economics Prof. Branko Horvath, another signer of the New Bretton Woods Call, is one of the few remaining architects of the post-World War II Yugoslav economic reconstruction. In 1958 he founded, and for a long period headed, the Yugoslav Institute for Social and Economic Research (today Institute of Economic Sciences), and is an author of many books and publications. He characterized privatization as "one of the many nonsenses imported into our countries," and called for a "ban of the Privatization Law."

"We need to have a planned economy: an institution, not a ministry, not the government, but a specialized institution. We used to have institutes for planning. These institutes create harmonized development plans for the country and the region in coordination with other national institutes of the sort."

Asim Omanic, director of the Federal Investment Bank, called the concept that the IMF offered to them—a small open economy—"the biggest stupidity I have ever heard. We have lost all criteria. We have turned moral standards upside down." And another speaker summed up, "If you offered a different approach, a different strategy, as we discuss now, to the IMF and World Bank, they would say: 'It is out of the question.' "

The Balkan countries have only one way out, and that is the LaRouche policy for the Eurasian Land-Bridge—in which this part of Europe has a crucial part to play—and the New Bretton Woods. Any fundamental positive change has to involve reversal of economic policy outside the region, because the countries themselves are victims of brutal diktats of this new sort of colonialism. People are still hoping, that true nation-building, based on a dialogue of civilizations, can begin after so much suffering. They know by now, that all of them have been victims of brutal international geopolitical machinations and power-plays. It is the responsibility of Europe and the United States to quickly bring about a fundamental change of economic axioms.