The Washington Post

# YUGOSLAV ENTREPRENEURS' SUCCESS

By Jackson Diehl
July 23, 1987

PEC, YUGOSLAVIA -- The whine of metal cutters and clang of stamping machines echo from two warehouse-sized workshops nestled along a dusty central street here. A truck loaded with gleaming red plows emerges from the site and weaves between donkeys bearing bundles of sticks toward the crude central market.

Kosovo Universum, the metal-working firm crammed into those workshops, is a rare model of industrial efficiency in one of Communist-ruled Yugoslavia's most backward southern regions. But the real anomaly of this factory is its manager.

Upstairs in the wood-paneled director's office, flanked by portraits of Lenin, Tito and Marilyn Monroe, is not a party appointee but Yugoslavia's biggest private businessman, a risk-taking former pop singer who built this firm from a garage into a $20 million-a-year business and now lectures anyone willing to listen on the virtues of free enterprise.

"Small-scale industry under private ownership is the key to resolving Yugoslavia's economic crisis," says Bogoljub Karic, the oldest of four brothers who founded and operate the Universum firm. "It doesn't matter if it's called Communist Yugoslavia -- this country must have a free economy."

With his hard-driving flair and can-do business sense, Karic and his family have become primary actors in one of Yugoslavia's loudest and most critical debates. The subject is whether this country's reform-oriented and nonaligned Communist government should restore private enterprise and ownership as a major factor in national production, easing a major economic crisis but risking a critical blow to the party's ideology and power.

This dilemma of private property is at the heart of struggles to reform the Soviet-style socialist economic systems around the communist world. Yugoslavia, a pioneer of reform since the 1950s, appears determined to produce one of the reform effort's most decisive outcomes: a landmark move to put up to 20 percent of its economy into private hands.

"There is no reason why we shouldn't have all forms of ownership," said Oskar Kovac, an

economic minister in the federal government of Prime Minister Branko Mikulic. "The government has decided to build the private sector and try to use the resources of private citizens to help speed the growth of the whole economy."

The move to encourage private ownership began in 1984 when Yugoslavia adopted a restructuring program to resolve its economic problems, which include high inflation, foreign debts and unemployment. Mikulic's government, which took office last year, recently has speeded up the policy as the economy has continued to stagnate. The maximum amount of land that private farmers are permitted to own has been increased, and a new federal law recently doubled, from five to 10, the number of workers allowed in a private firm.

The Karic brothers' factory, with 320 employes, is an example of larger private enterprises that have been allowed to spring up under a complex legal fig leaf by which entrepreneurs technically are "contracted" by the state to manage their own firms. More than 200 such firms exist in Yugoslavia, although they typically employ fewer than 40 persons.

According to Kovac, federal officials are drawing up measures that would encourage the 650,000 Yugoslavs working abroad to put their savings into small private businesses at home. Citizens soon may be allowed to invest their money in public enterprises in return for a share of the profits and, possibly, a say in company management. Overall, the government's goal of a 20 percent share for the private sector in the national economy represents a nearly fourfold increase over its current contribution of 5.3 percent.

The problem is the political and ideological alarms that have been set off in a communist establishment by the specter of a surge of private ownership and its byproducts -- such as the brash, millionaire Karic family.

"In theory everything is fine, everyone agrees with these policies," economic minister Kovac said. "But when it comes down to doing it, there is a lot of red tape and ideological resistance at the lower level of government, where things really happen."

Here in Kosovo, a province that has Yugoslavia's lowest living standards as well as its most severe ethnic tensions -- between the province's majority Albanians and Serbs -- Karic and his family, who are Serbs, have learned how stiff the resistance to renewed private ownership can be.

"There are a lot of people here who just can't accept the idea that we might be making big

profits and building ourselves big houses, even if they know we are helping the country," he said. "It is the legacy of our socialism."

And yet, this burly, 33-year-old manager, who with his thick mustache and gold chain still looks more like a pop singer than a businessman, has shown how quickly private production can boom in a country where socialized industry is at an impasse and more than 1 million people are unemployed.

A decade ago Karic, his four brothers and a sister were a popular pop group who wanted to settle down after nearly 15 years of touring the country. Unlike many Yugoslavs, they had a sizable savings account to draw on. And they had the ideal formula for a successful private business: producing the small tools and spare parts that centralized socialist heavy industries chronically lack.

The beginning was simple: hammers, axes and other small tools turned out in a garage by the brothers and two employes. Then, as demand began to grow, Bogoljub Karic visited a trade fair, where he noticed a lack of small plows that could be attached by family farmers to their tractors or horses.

There was no turning back. "In 60 days we built our own plow, and the market demand was overwhelming," he said. "The bureaucrats were unable to stop us from going ahead with it. Now our plow is bought by farmers all over the country, and we export 3,000 a year to Egypt."

Karic also supplies spare parts, sometimes custom made, for the production lines of 15 state companies, including six large industrial conglomerates. This year he opened a subsidiary workshop in Belgrade and soon hopes to have branches all over the country.

To sustain his growth, Karic has had to accept a series of burdensome compromises with the socialist system. Since 1980, when his firm burst out of its workshop, he has kept a kind of partnership with the state, nominally working as a contractor to manage a company that, in theory, eventually will be fully nationalized.

Self-managed units of workers, the basic component of Yugoslavia's socialized sector, have been introduced into the Karic factory and now have the authority to dispose of 50 percent of the firm's profits. The other half is controlled by the Karic family, which draws on them for investments in the ever-growing firm.

The most burdensome state interference, Karic said, is that "which officially doesn't exist,

but in reality is there all the time. Like getting credits from state banks -- you can't. Or like submitting an application to form a new workers' unit, which is supposed to be approved within 60 days. Instead, six months go by, and you can't find anyone who's responsible for it."

Despite the state encroachments, Karic has managed to preserve the essentials of private enterprise. He is free to set his own production schedule and prices without political interference and cumbersome negotiations with workers' councils. Moreover, while paying his work force nearly three times the average local wage, he is able to set his own staffing levels and demand real performance from the employes he hires.

"An engineer who gets {$235} a month in a state company here gets {$785}, plus benefits he could never dream of in a state job," Karic said. "But of course here he actually has to work eight hours a day and be responsible for what he does, instead of working two or three hours in a place that doesn't care. Here there is no drinking and no smoking allowed, and if you want to earn, you work."

Karic says his experience has taught him that most state-run companies are incapable of enforcing such discipline. He believes that most controls should be lifted on private enterprise and the sector be allowed to expand to 30 percent of the national economy within three years.

Yet, in what could be taken as a sign of the growing confusion of ideology in a time of change, Karic and his brothers say they regard themselves as socialists and remain members in good standing of the Yugoslav League of Communists.

"The communist idea that a society would be established where everyone lived equally, that idea never worked," Bogoljub Karic explained. "But it depends on how you look at it.

"As a Communist, for me that means I don't want to have it all. I'm willing to share the profit with my workers. But I have to be free to pursue my business and to be rewarded for that.

"There are people who don't want this because they are afraid it will change society. But when something doesn't work, it has to change. And I think people are beginning to agree that our system needs very radical changes."

Comments

**Jackson Diehl**
Jackson Diehl was deputy editorial page editor of The Washington Post until August 2021. He was an editorial and column writer specializing in foreign affairs. Follow