Payments Gap Undermines Yugoslav Economic Recovery

YUGOSLAVIA

Yugoslav officials are sounding the alarm in speeches and interviews that the country's economic stabilization program is in trouble. Federal Vice President Dr. Berislav Sefer warned in an interview to the daily *Politika* June 19 that imports have risen "euphorically" — 40 percent in the first five months of this year over last year — while exports have risen much more slowly, and the trade deficit is now 30 billion dinars (about $1.7 billion). Sefer likened the situation to the crisis years of 1974-75, when harsh import restrictions were imposed, and cautioned that government intervention will again be needed to curb the import growth if things do not improve in short order.

Statements by Dr. Sefer, Secretary of the Executive Committee of the League of Communists of Yugoslavia Stane Dolanc, and others in the early months of this year stressed the "deterioration of the reproductive capacity of our economy," and called for a national mobilization to put a brake on inflation. Yet prices have continued to rise at an accelerated rate, and the cost of living for the first five months of the year rose 13.5 percent over this time last year's increase of 11.1 percent.

The key problems undermining the "reproductive capability" of the economy are the foreign debt burden and the effect of the import restrictions and cuts imposed over the last several years. These factors have led to a deterioration in the quality of the country's labor power, which has in turn made it more difficult to successfully expand production.

The foreign debt was a high $8 billion at the end of 1976, with a ratio of net debt service to current receipts of 12.8 percent (down from 15.2 percent in 1975, when the total debt was $8.5 billion). However due to the high foreign currency reserves of $2.8 billion in 1976 the debt was more manageable than in the previous period. The 1976 net foreign debt (net foreign claims minus Yugoslavia's credit to the rest of the world minus foreign currency reserves) fell below $3 billion, or about 8 percent of the social product.

But a high proportion of gross external borrowing — over 50 percent — still went into debt service payment, and if the balance of trade problems seen so far in 1977 continue, further difficulties will be in store.

To cope with the effects of the 1973 oil price rise, import controls were instituted and the economy was geared up to increase exports. Through these means, a brief stabilization was achieved by 1976 — the rise in the cost of living declined to 11.1 percent, following a 24 percent increase in 1975, and there was an unexpected current account surplus of $150 million — but only at the cost of cutting back production and imposing domestic austerity.

Most direct import controls were removed at the end of 1975, but licensing requirements and other means were still used to curb imports, which fell 5.5 percent by volume in 1976 — the second year in a row to show a decline. Consumer goods were the hardest hit, but capital goods and raw materials too were affected. An "export or die" mentality set in, with Federal Secretary for Foreign Trade Dr. Emil Ludviger proclaiming in a *Tanjug* interview, July 11 last year, that imports would be allowed on the basis that "he who has carried out his obligations to export has also the right to import." If individual organizations cannot work at full capacity for lack of imports, they probably have not fulfilled the "basic condition," he said: to export. "In other words, they have not justified imports by exports."

The effect of the import cuts was a dangerous stagnation, 3 percent growth of industrial production (Figure 1). In 1976 production of iron, steel, construction materials and certain types of machinery dropped. The rate of capital formation fell from 18.1 percent in 1975 to 14.7 percent. Supplies needed for agriculture or industry

Figure 1
Industrial Production
Output of Selected Commodities

	1973	1974	1975	1976
Crude steel**	2.7	2.8	2.9	2.8
Lead ore*	119.0	120.0	127.0	123.0
Rotating machines*	30.7	34.3	39.8	30.1
Pulp and cellulose*	527.0	560.0	527.0	495.0
Bauxite*	181.0	198.0	188.0	169.0
Electricity***	35.1	39.5	40.1	43.6
Lignite**	31.9	33.0	35.0	36.3
Cement**	6.3	6.6	7.1	7.6
Building machines*	34.4	34.6	34.6	38.4
Petroleum products**	9.1	10.4	10.9	11.8

Notes: * — (thousands of metric tons)
** — (millions of metric tons)
*** — (billions of KW hours)

Source: OECD, UN

have frequently been either unavailable, or available only of domestic production, where imported goods would be cheaper. A businessman visiting Yugoslavia recently described how a new steel mill in Slovenia was ready to being production, requiring only a small quantity of a special lubricant. But permission to import was delayed, so the mill began production several months behind schedule.

Similarly, foreign currency allocations for imported spare parts for agricultural equipment were not made until April, well into the planting season. By the time the needed parts were available, the season was over. In another instance, Yugoslavia lost a ship-building contract because the enterprise involved was under-bid by a Japanese firm. The reason for the high price quoted by the enterprise was the high price of domestic steel relative to its imported equivalent; yet because of the import restrictions, the domestic product had to be substituted.

By the end of 1976 and the first months of 1977, industrial production was picking up again, rising from 3 percent overall growth in 1976 to 11.3 percent in the first four months of 1977 over the same period the previous year, but at the cost of renewed inflation and a yawning balance of payments gap.

The main casualty of the post-October 1973 "reforms" and stabilization programs forced on the economy by the world crisis has been the productivity of labor, which Dr. Sefer called "our number one problem" in an interview with the daily *Borba* Feb. 25. Living standards and productivity have stagnated or fallen for the past two years (Figure 2). In 1976, labor productivity in the socialized, non-farming sector (i.e. the most productive) fell, after having shown virtually no change the year before. Labor productivity in industry overall stagnated.

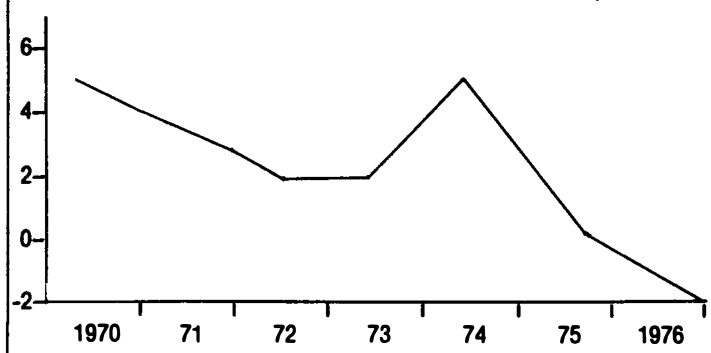
The deadly effect of this actual deterioration of the country's labor power is reflected in comments by Dr. Sefer: "Can Yugoslavia really afford to maintain 18 universities?" he asked in his *Borba* interview Feb. 25. And yet he complained of the "striking poverty of new ideas" among Yugoslav workers and managers in a statement cited by the London *Financial Times* May 26. How new ideas are to be generated without new universities, he did not say.

The main source of the low productivity is probably the fact that only one-fourth of current plant capacity is in use. To keep unemployment down, workers are hired where they are not really needed, and Sefer reported that the average worker only works for 4-5 hours out of the day. Some sources estimate that workers spend one month out of every year attending "self-management" meetings in the enterprises.

The erosion of labor power is further indicated by the fact that in 1976 the number of school drop-outs reached 170,000 — significantly higher than in previous years — and a growing number of people seeking work for the first time were women. These statistics point to the need for families to supplement the income of the head of the household by sending women and teen-agers onto the job market. Despite gains in employment last year, unemployment also grew, reaching 5 million for the first time. Many of these are the "guest-workers" returning home from Western Europe at the rate of about 80,000 per year, due to the shrinking job market there. Many of these workers held menial jobs in Western Europe that no one else wanted; they lack the skills which would make their re-entry into the Yugoslav economy easier.

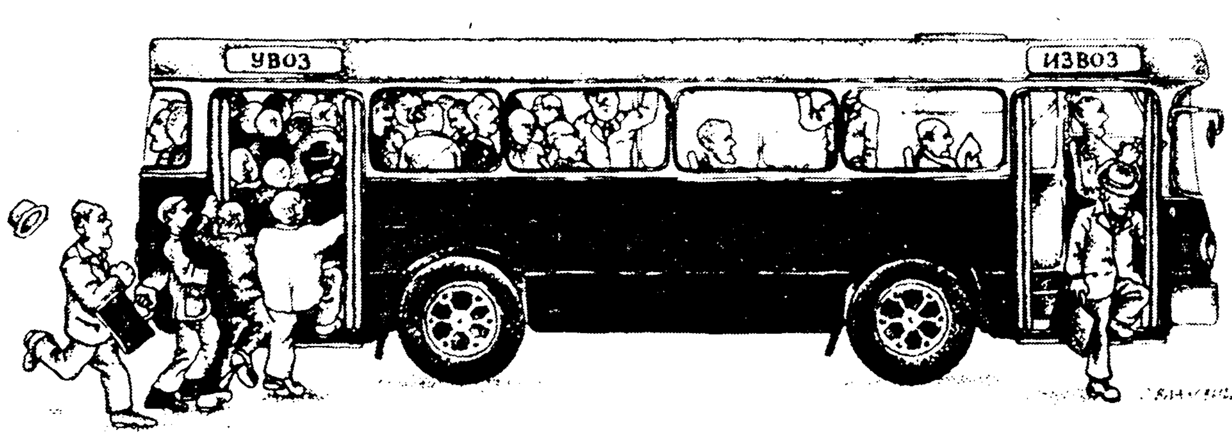
On the whole, Yugoslavia has stubbornly bucked OECD recommendations to forego capital-intensive development in favor of labor-intensive projects which would ease the unemployment problem. But the *1977*

Figure 2
Labor Productivity
Year-on-year changes in percent



Note: Socialized sectors, excluding agriculture

Source: OECD, SZZS, Indeks.



Cartoon from the Yugoslav weekly *Nin* shows import-export disparity.

OECD Economic Survey of Yugoslavia hopes that a shift may be in the making: "The Plan (1976-1980--ed.) contains interesting new guidelines for the expansion of certain labour-intensive activities...notably, housebuilding, small handicraft enterprises and certain private services; and some sectors of agriculture. However, the general problem of capital-labour ratios needs to be considered....An increase in the productivity of labour is a highly desirable objective, but this can be achieved partly by shifts of manpower to more efficient, and internationally competitive, sectors of production which are not necessarily capital-intensive and by improved training...in the economy's present stage of development — too fast growth of real wages would be at the expense of the employment objective."

Who's Running the Show?

Yugoslavia's economic problems, due in large measure to the downturn in the world economy as a whole, are aggravated by the peculiar chemistry of the country's "self-managing socialist" system. The devolution of the country's political and economic structure to a more and more decentralized framework seriously hampers the efforts of federal officials who are grasping for some means to keep their careening vehicle under control. Officials in socialist Yugoslavia today have less control over the direction of the economy than their counterparts in some capitalist OECD countries. As Sefer commented in his interview to *Politika*, the economy is determined more by the "conjuncture" than by plan.

Nevertheless the trend to decentralization has increased in recent months, and Presidency member Edvard Kardelj at a meeting of the Central Committee of the LCY June 12 broke with the tradition established by President Tito and endorsed the concept of "pluralism" — provided it is not "bourgeois" but "self-managing" — as the foundation of the Yugoslav system. Kardelj rejected "power monopoly" by either a "one-party system" or a "multi-party system," opting for an ill-defined mixture of both on which no two Yugoslavs can be found to agree, and which no foreigner can hope to fathom. Stane Dolanc, in a speech to the Central Committee Jan. 31, cast doubts on the time-honored Leninist principle of "democratic centralism": "Some believe that in the name of democratic centralism or in the name of some would-be unity, they can realize their interests primarily with the help of the authority of the League of Communists. In political terms, naturally, this means an attempt to place the League of Communists above the system."

The political effects of this erosion of centralized authority in Yugoslavia include the virulent regionalism — Croatian, Serbian, and Slovenian nationalism providing fodder for U.S.-controlled terrorist networks such as the Ustashi, which has plagued the country since its founding — and the activation of New Left agent networks of the "Praxis group" variety. Tito has kept both of these dangerous manifestations of heteronomy under tight rein over the last few years, but now both are showing renewed signs of life. At a regional conference in Croatia reported in the daily *Vjesnik* June 24, Dr. Ivo Margan warned against "the emergence of nationalist tendencies" which are "becoming strong again" and "must be confronted in time so that they do not acquire too much power." The "Praxis group" itself is trying to resume publication of its press, and according to an unconfirmed report in the *New York Times* June 26, there are rumors that the government may accede to this as a gesture of compliance with the Helsinki accords.

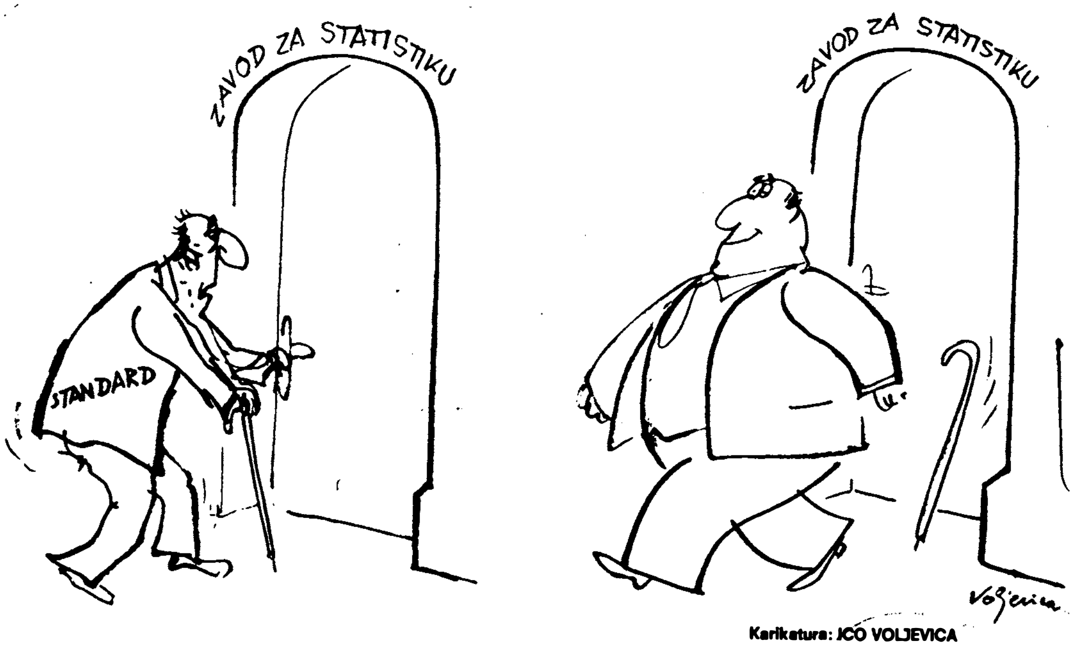
Self-Management Fraud

In the economic sphere, the ideological rationale for decentralization is that it gives the working man control over the allocation of the social surplus which he creates. Under conditions where the quality of labor power itself is steadily deteriorating, the irony of the "self-managing" ideal is all the more clearly exposed. In reality, the self-managing system — held up by Institute for Policy Studies-linked ultra-left groups in the West as a model of "industrial democracy" — gives workers a certain influence over point-of-production decisions. But the allocations of social surplus for the economy as a whole is left to what Sefer calls "conjuncture" (or what others might call "Providence") such as market forces or the demands of David Rockefeller's banks for debt payment. Neither the working man nor the Central Bank director has much to say about it. The Five Year Plan itself is not drawn up from the top down, on the basis of what is necessary for the economy as a whole, but is built from the bottom up, with individual enterprises reaching agreements on production goals, wages, import and foreign currency needs, and submitting these to the federal government.

New foreign exchange regulations have turned over control over hard currency from the Central Bank to the republics. The instruments of control left to the Bank are basically regulation of the money supply and setting of overall fiscal policy. The dilemma of the central bankers was revealed in recent statements by bank governor Branko Colanovic, quoted in *Vjesnik*: "The Central Bank," he said, "has no ambitions to influence the structure of utilization of foreign currencies; but we cannot just sit with our hands folded either, just because no agreement exists." He did not propose what should be done.

A perennial problem in Yugoslavia is the mushrooming of domestic debt, which in many instances has been ignored, with enterprises circulating invoices amongst each other and nobody paying up. The economy's losses from such practices in 1976 amounted to 18 billion dinars ($1 billion), and officials expect that about half of this sum will have to be written off. The government has passed legislation to try to crack down on such behavior, but the immediate effect was to send the enterprises rushing to the banks to borrow money to pay off their debts. To meet this demand, the money supply was increased by 53 percent last year, which in turn fueled inflation. To the extent that enterprises could not obtain the necessary credit, they curtailed investment and production levels.

The difficulties were still acute in February of this year, when the National Bank warned that the rapid monetary expansion "could endanger the proclaimed stabilization aims of the economic policy for 1977," and withdrew some money from circulation. In June, Dr. Sefer warned that enterprises are going too heavily into debt to the banks — domestic and foreign — to finance



Cartoon from the Yugoslav daily *Vjesnik* shows "living standard" entering the Bureau of Statistics and emerging a new man.

investment, and that as a consequence the basic reproductive capability of the economy is being further undermined, and inflation is heating up. The economy has yet to establish the necessary "new relationships" with the banks, Sefer said.

At the same time, there is a growing sentiment that the banks themselves have become centers of autonomous power which must be curbed. An article in *Vjesnik* March 6 referred to the "tsardom of the banks," and called for preventing them from being "parasites that just live on interest, a brake on economic development." According to Victor Meier, writing in the *Frankfurter Allgemeine Zeitung* June 16, moves are underway to place more industrial managers into leading banking positions, as a way of ensuring greater responsiveness by the banks to the needs of the economy. Meier reports that real estate speculation by the Slovenian Ljubljanska Banka has been abruptly halted by government authorities.

The detrimental effects of decentralization are most graphically revealed in the years-long squabble over the modernization of the country's dilapidated highway network. During the 1960s the Federal Government ceased funding and supervising highway construction, which was given over to the constituent republics. Each republic therefore built roads off in all different directions, widely separated from one another, and according to the weekly *Ekonomska Politika* September 6, 1971 (cited in Radio Free Europe report March 12, 1976), "decentralization and republicanization" had resulted "in the disintegration and disorganization of the entire system." Ironically, it was only the threat of not getting a loan from the World Bank which finally forced federal and regional politicians to sit down together and work out a national plan for the construction of a modern highway system.

Prospects: Yugoslavia and the New World Economic Order

Despite its difficulties, the foundation of the Yugoslav economy is basically sound, and Yugoslavs are justly proud of their achievements in economic construction since the war, viewing them as potentials which could be much further developed by a new world economic order. As the OECD's annual surveys repeatedly complain, the country's leaders have insisted on capital-intensive development. In spite of what some officials have identified as a tendency to over-invest in processing industries which offer quick returns especially in foreign currency, industry and mining have still absorbed the bulk of investment funds over the past two decades, according to a World Bank study issued in 1975. In the decade before the 1973 oil price rise, there was a great emphasis on introducing modern technology, and all the fastest-growing industries were capital intensive except the electrical equipment industry. Two-thirds to three-fourths of all machines are less than 10 years old.

This booming development was achieved by means of a growing debt burden to Western financial institutions. It was facilitated by Yugoslavia's political situation following the Tito-Stalin split: development funds poured in to ensure that Yugoslavia would remain outside the Soviet bloc.

Unlike many developing nations, Yugoslavia produces a diversity of industrial goods for export, with the overall level of industrial exports high relative to the level of industrial production. Industrial enterprises are remarkably large compared to both developed and developing countries, and the work-force is relatively skilled by developing countries' standards. Yugoslavia has programs for training cadres from developing nations in Yugoslav schools and universities. Per capita gross domestic product in 1974 was greater than Turkey, about the same as Portugal, less than Greece and Spain. Yugoslavia is the largest producer of non-ferrous metals in Europe, and has the richest resource endowment relative to area and population, although many of the resources have not been tapped.

As a leader in the non-aligned movement with good relations with both East and West, Yugoslavia has been an active supporter of the drive to establish a new world economic order. Finance Minister Momcilo Cemovic issued a call at the non-aligned finance ministers' meeting in Belgrade last week for an "international development bank" or a "bank of the developing countries" to further the growth of those nations. Yugoslav spokesmen at the Belgrade European Security and Cooperation Conference have called for participation of non-European Mediterranean countries in the conference, to work out an overall Mediterranean security arrangement and Mideast peace settlement.

Yugoslavia has advanced many proposals which could be implemented by a new world economic system. *Vjesnik* proposed the creation of an integrated Balkan electric power grid and an integrated transport system linking Europe and Asia, as a step in the implementation of the Helsinki Accord's "Basket 2," in an article June 11. The trans-Yugoslavia superhighway now being constructed with funds from the World Bank and the European Investment Bank, linking Austria with Greece, is viewed as a first step in such a broader development project.

Yugoslavia is particularly anxious for help in developing its energy, raw materials, agriculture and highway infrastructure. A strong advocate of nuclear energy, the country fought and won a battle with the Carter Administration this spring over the construction of a nuclear power plant by Westinghouse in Krsko. However Carter's policy of sabotaging nuclear development has led Yugoslavia to search elsewhere for long-term aid. The West German industrialists' daily *Handelsblatt* June 27 reported that "the atomic energy policy of President Carter, which is incomprehensible in the Yugoslav view, has driven Yugoslavia to change its plans for peaceful development of nuclear energy and seek long-term cooperation with the CMEA (Council for Mutual Economic Assistance, or Comecon -- ed.) in the area of production and transfer of nuclear technology."

—Susan Welsh