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Working Paper

INTERNATIONAL EMPLOYMENT POLICIES

Working Paper No. 9

EMPLOYMENT POLICIES IN THE PROGRAMME OF STRUCTURAL
ADJUSTMENT OF THE YUGOSLAV ECONOMY

by

O. Kovac and L. Madzar

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November 1986

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Preface

This study by Dr. O. Kovac and Dr. L. Madzar of the Faculty of Economics, University of Belgrade was commissioned as part of the ILO's research programme on alternative stabilisation policies. The origin of that research lay in the observation that most countries adjusting to balance of payment disequilibrium only reach external equilibrium through reduced levels of domestic employment or reduced wages. Countries committed to full employment, such as Yugoslavia, must achieve external adjustment without lowering employment levels, or indeed without reducing rates of employment creation. The authors describe how adjustment in Yugoslavia was necessitated by external indebtedness and how cuts had to be made in investment (which was administratively simple) and in consumption (which was not). Given the nature of enterprise control in Yugoslavia this meant spreading reduced incomes over a growing labour force. The system also responded in ways that widened disparities in remuneration for similar work between enterprises and at the same time narrowed pay differentials within enterprises. The Yugoslav economic system did maintain and even expand employment. However, the authors consider that while stabilising employment is an evident advantage over other economies the Yugoslav economic system has long-run drawbacks in reducing efficiency and probably future investment and conclude that it proved impossible to design a stabilisation policy which achieved external balance without inflicting other (future) costs.

R. van der Hoeven

P.J. Richards

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INTRODUCTION

To raise the level of employment has long been one of Yugoslavia's highest priorities and is likely to remain so in the foreseeable future. It profoundly affects economic plans at various levels and determines the character of a great number of policy measures. There are various reasons - some general, others specific - why it is vitally important to succeed in this respect.

To start with general reasons, Yugoslavia is a socialist country, one in which, as a matter of principle, income from work is the only source of livelihood, the basic social value. In such a community work must obviously be made accessible to all.

The main employer in Yugoslavia is the "social sector". This comprises the bulk of the economy and contains the enterprises which used to be state owned and operated, as well as some which had been administered on a co-operative basis. The restrictive features of the social sector are: social (as opposed to private) ownership of the means of production; and self-management as the organisational principle.

Despite the adjective, a "socialist country" is not in a position to arrange the whole of its economic life on strictly socialist lines. To go further in that direction, it must expand and strengthen its social sector at the expense of others; and for this to be done, inter alia, new jobs have to be generated at a sufficiently rapid pace.

Next, the Yugoslav social sector is self-managed: but self-management is an activity for the employed. Evidently an unemployed person cannot take a meaningful part in the decisions of a self-managed organisation. In this obvious sense, self-management is conditioned by employment: so, if self-management is to be strengthened, there is no alternative to increasing the number of persons employed in the social sector.

Lastly, any socialist community, and a self-managed society in particular, claims to be equitable: so, if the bulk of the means of production is to be under joint ownership, elementary social justice demands that everyone should

have equal access to it. Clearly the unemployed do not have such access, they are prevented from using the means to which they are entitled, and they thus become subject to discrimination that is socially unacceptable.

Several specific factors are equally important. Yugoslavia is a multinational federal State, the units coinciding partly with ethnic regions and having a great deal of autonomy. Each of these units, styled "republics" or "autonomous provinces" and referred to below as "regions" is, by and large, responsible for its own development as well as, in current parlance, for the "sustained development of the country as a whole". On historical and physical grounds the regions differ markedly with respect to per capita income and other development indicators: the per capita income of the developed is about twice as great as that of the underdeveloped regions, whereas the per capita income of the most developed region (Slovenia) is six times as great as that of the least developed (Kosovo). The regions correspond largely to linguistic or ethnic groups, so regional discrepancies stand out as "national" inequalities in income, wealth and standard of living. The issue of regional inequality therefore becomes politically sensitive and it is largely agreed that to reduce this inequality would fulfil one of the essential preconditions of overall social stability. It has been clearly established that existing inter-regional differences in per capita income are due for the most part to the widely-varying ratio of the number of persons employed in the social sector to the total population. So any effective way of reducing regional inequality must lead to - and through - a more rapid increase of employment in the less-developed regions; and, basically, more income can be obtained only by creating more employment in the social sector.

A striking feature of the Yugoslav economic and wider social system is the fact that, in addition to income, employment carries with it a host of other, almost equally significant benefits. Social insurance with a very wide cover (including pensions, sickness and disability benefits, free medical treatment, etc.), housing, free provision of meals in working time, vacation allowances and several other amenities are available to those who have jobs in the social sector. Accordingly, to get a social sector job makes an enormous difference. But the amount and range of the benefits enjoyed by people in such jobs imply equally clear discrimination against those who cannot obtain them. It will be argued later that personal incomes have been rising above their economically rational and socially appropriate levels. All the above

signifies that employment in the social sector confers a tremendous advantage over practically all those who earn their living outside it, not to mention those who have no useful occupation at all. Therefore, generating additional employment means not only providing jobs for those who are only too anxious to get them, but also reducing drastic inequality in economic and social conditions.

Indeed, it is frequently stated in the Yugoslav press and other media, as well as in political bodies, that the deepest line of division which stratifies society and creates something like class inequality is the line separating the employed from the unemployed. Society is deeply concerned with this situation: the concern is clearly expressed at many social and political meetings. The most vivid characterisation of employment as an urgent social need is given in the Long-term Economic Stabilisation Programme, where expanding the number of jobs is described as a basic preoccupation of development policy.¹

Owing to certain persistent features of Yugoslav society, labour mobility is very low. An employee in the social sector has, to all intents and purposes, life-long tenure. One consequence of this is an excessive incidence of unemployment among adolescents. A high rate of employment growth seems to be the only practicable way of providing jobs for the young - an objective of importance from the standpoints of both intergenerational equity and economic efficiency. To all this one should add that in Yugoslavia, as elsewhere, employment acts as a powerful instrument of income redistribution.

I. MAJOR IMBALANCES IN THE YUGOSLAV ECONOMY: THE
NEED FOR ADJUSTMENT

At the present stage of its development, the Yugoslav economy is burdened with every one of the standard types of imbalance. National absorption has long exceeded available supply, and a balance-of-payments deficit has become a standing feature of production in the social sector. There is imbalance also in the use of domestic resources where demand constantly exceeds supply; a very high and still rising rate of inflation has resulted. There is

¹ Federal Commission for Economic Stabilisation Problems: Long-term Stabilisation Programme, Document I (CRS Belgrade, 1983), p. 102. (Hereafter referred to as Stabilisation Programme.)

significant underutilisation of the production potential - unemployment on the one hand, insufficient use of capacity on the other. Lastly, there are structural imbalances of various kinds, with deep and persistent bottlenecks in some sectors and excess capacity in others.

1.1 Structural discrepancies:

Misallocation of investment

Structural discrepancies are a long-term phenomenon - a consequence and a clear sign of the protracted misallocation of economic resources; they have far-reaching implications and take a long time to cure. Their undesirable effects on the employment potential are obvious: ill-balanced capacity cannot be fully utilised, the number of jobs provided is below the level which ought to be reached with the given quantity of resources, and there are relatively few jobs per unit of investment.

1.1.1 Need for adjustment

There are several reasons - some general, some specific - why the Yugoslav economy has to adjust.

First among the general reasons is a significant change in relative prices on the world market, accompanied by systematic worsening of the terms of trade. Especially important in this context is the drastic increase of energy prices, spearheaded by the two notorious "shocks" in regard to the price of oil. Equally disruptive effects have been caused by changing conditions in the international capital market, particularly the reduced availability of credit and the increase in rates of interest. The slowdown of growth in the OECD countries - the biggest export market with convertible currencies - has gravely affected the key components of Yugoslavia's export trade. The intermittent recessions have reduced the prospects for Yugoslav workers of finding jobs in foreign countries and even obliged some of those who had been employed abroad to return home. These changes were felt as a series of powerful shocks, to which the economy has had to adjust in order to perform its basic functions in the new conditions.

Among the specific features to which the economy has had to adjust is the sudden and drastic decline in the inflow of foreign resources. Foreign

resources, apart from export receipts, had been received for a long time - at first mainly as grants and various forms of aid, then as workers' remittances and substantial credits on concessionary terms, and lastly as credits on, at times, very unfavourable commercial terms. The worsening of the conditions under which supplementary resources had been forthcoming meant that sooner or later they would have to be repaid and that a steady net inflow of credits was simply not sustainable. It transpired later that the transition from the regime of using the credits to the regime of having to repay them and to face high costs of debt servicing was abrupt and called for costly and painful adjustment.

Disappearance of foreign capital inflow meant a big change in domestic absorption¹ followed by deep changes in the structure of final demand. Especially important was the need for a large increase of exports at the expense of other categories of final demand. Among the latter, investment was particularly hard hit and this profoundly affected the building industries, one of the biggest outstanding labour-intensive sectors. Far-reaching structural changes took place within various categories of final demand, for instance, due to a rapid and sustained decline of personal incomes there have been many big changes in personal consumption. The production apparatus had to accommodate all these shifts and that task put it, quite naturally, under a good deal of strain.

As will be shown, the Yugoslav economy had had to operate in an environment characterised by unrealistic, economically irrational values of the key parameters of resource allocation. Factor prices were in glaring contradiction with factor availabilities, the real interest rate was negative, the charge for the use of social capital was absent, the currency was overvalued on foreign exchanges and product prices were distorted. Some of these parameters to a large extent reflected intensive capital inflow, e.g. overvalued exchange rates could not have prevailed so long had there not been a steady and substantial inflow of foreign resources and the same applies partly to the negative real rate of interest. But apart from these structural reasons, there were independent institutional reasons causing distortions of the parameters regulating allocation of resources. Changes in external and

¹ I.e. personal and government consumption and investment.

domestic resource flows were bound sooner or later to induce changes in these parameters and such changes put a considerable strain on most of those segments of the economy which had to adjust to them. In particular, the changes had significant implications for employment generation and the prospects of reducing unemployment. It is to these that a large part of the following analysis is devoted.

1.1.2 Structure of the Yugoslav economy

The present structure is the result and evidence of the the misallocation of investable resources, foreign exchange and other factors. This prolonged process has been subject to a variety of technological, institutional and policy influences. A distorted and inefficient structure can be taken as a reliable sign of the underlying inefficiency of resource allocation. So-called structural discrepancies have been a steady discussion topic for more than three decades: intensive debate on these deficiencies began in the early 1960s.

Uneven and unsatisfactory growth has resulted in persistent bottlenecks on the one hand and equally lasting excess capacities on the other. For reasons which will be discussed below, investment is flowing into over-equipped sectors, giving a low economic return or none at all, while significant opportunities for profitable expansion in other sectors remain unexploited. In the Yugoslav case there is a regular, predictable pattern of structural discrepancy: capacity tends to be excessive at the higher stages of processing, whereas production at lower stages - especially those dealing with raw materials - remains insufficient. In principle it might be possible to rectify such imbalances by exporting highly processed products and importing the necessary raw materials; but although such products also tend to be uncompetitive on the world market, their existence is artificially assured by distorted domestic prices, various forms of subsidy and a highly protected internal market. Due to deficiencies in sectors such as those, the economy is fated to suffer a significant foreign deficit. Once the possibilities of accumulating deficits are exhausted, the system inevitably enters a growth crisis with difficulties which last long and are hard to cure.

Major structural bottlenecks in the Yugoslav economy are the energy sector, the output of raw materials, and food and agricultural production. It

would be possible to identify several lines of production, containing vertically related sectors, of which the higher sectors are both profitable and over-equipped, whereas the primary sectors seem to be characterised by low profitability and insufficient capacity. This anomaly is maintained by way of price distortions and the false signals which they give to those concerned with investment choices and profitability calculations.

Besides the general discrepancies between industries at the raw material and processing stages, industries dependent on imports and those having duplicate production capacity, there are even cases of lack of synchronisation of the various stages of production within a single sector.

Some Yugoslav economists¹ emphasise the wrong regional distribution of industries as a peculiar structural weakness of the economy. For reasons which will be dealt with below, labour-intensive industries tend to be concentrated in the regions where manpower is relatively scarce, whereas capital-intensive sectors are mainly located in regions with abundant supplies to insufficiently utilised labour. Great inefficiency in the use of manpower is indicated: labour shortages co-exist with labour surpluses and the system does not make full use of the vast potential contained in the human factor of society.

The negative impact of structural imbalances on employment is increased by low efficiency of investment and of use of capital. International comparisons show that both average and marginal capital-output ratios significantly exceed those of the market economies at a similar level of development; indeed, they tend to approximate the notoriously high capital-output ratios of the centrally planned economies. Inadequate efficiency is also indicated by the modest rate of growth of total factor productivity. Most of the industrial and general economic expansion has taken the form of mechanical increase in the quantities of production factors; the overall efficiency of their use has been very low and its growth rate is declining. Thus, according to recent

¹ One of the most outspoken is Kosta Mihailovic, "Ekonomska stvarnost Jugoslavije", in Ekonomika (Beograd,) 1981, pp. 151-168, particularly pp. 150-155. See also Nikola Cobeljic: "Problemi prosirene reprodukcije i privredni sistem", in I. Maksimovic (ed.): Privredni razvoj i privredni sistem Jugoslavije, Ekonomski zbornik I (Beograd, SANU - Odeljenje drustvenih nauka, 1982), pp. 27-46.

Yugoslav research based on the linear homogeneous Cobb-Douglas function, the rate of growth of total factor productivity in the period 1952-64 was 2.6 per cent, whereas in the period 1965-79 it was negative (-0.3 per cent), or close to zero. At the level of particular industries, growth of total factor productivity was measured by productivity indices, but this slightly different methodology gave results which are consistent with the above general tendencies. The growth rates of total factor productivity varied between -6.27 per cent (coal processing) and 5.31 per cent (chemical processing), while most values were concentrated in the range from -2 to +2 per cent. The analysis at industry level relates to the 1971-78 period, when productivity declined; this perhaps explains why the rates for 18 out of 34 industries were negative.¹

The above findings are further corroborated by the studies on economic rates of return undertaken at various times in the Institute of Economic Research at Ljubljana and the Institute of Economic Studies at Belgrade. Two main conclusions arise from this research. First, the overall rate of return is quite low. Second, the rates for individual branches are widely scattered around the average for the manufacturing and mining sector. Both conclusions imply some inefficiency: the low average level in this regard indicates inefficient use of available capital; wide differences between the sectoral rates show imperfect allocation. Losses of output and accordingly of employment are due to inefficiency in both investment and operation.

The imminent adjustment of the economy to new external circumstances, particularly the structure of domestic demand, and a fundamentally different set of values for major parameters of resource allocation, will affect employment unfavourably in at least two ways. First, there will have to be some relative increase of investment into capital-intensive sectors producing energy and raw materials. Second, the curtailment of imports, as a part of the effort to bring the balance of payments back to equilibrium, will inevitably result in a further reduction in the use of capacity - which simply means that there will be less work available. Furthermore, the greater scarcity of imports will narrow existing bottlenecks and perhaps create new ones, thus (under Yugoslav conditions) automatically increasing the overall volume of excess capacity.

¹ Marta Bazler-Madzar: Tehniki progres i privredni rast (Beograd, Institut ekonomskih nauka, 1984), pp. 144-170.

1.2 Internal imbalances: The
dynamics of inflation

Many of the general internal imbalances (national income and total consumption, savings and investment, budget revenues and expenditures, exports and imports of goods and non-factor services) express themselves, inter alia, through the high and growing rate of inflation. Most of those imbalances culminated in 1979. In 1980 and 1981 some short-run stabilisation measures were taken and the work on the long-run stabilisation programme started. For that reason we shall take 1979 as the base year for evaluation of stabilisation policies.

According to the figures in table 1, total absorption within the country significantly exceeded both domestic production and the gross national product. Only after 1982 did absorption fall below the GNP, although it still remained higher than domestic production. Similarly, the negative foreign balance gap also narrowed. Obviously the slowdown of gross investment in fixed assets bore the brunt of this adjustment.

Many of the above imbalances must have been much higher in nominal than in real terms, since the rate of inflation did not fall - on the contrary! Increasing prices or deficit financing were the most common means of trying to resist painful real adjustments.

There is no risk in stating that almost all kinds of causes of inflation were at work in Yugoslavia: demand-pull, cost-push, structural, imported, the "transfer problem" type and institutionally determined inflation. In view of the share of imports in GNP, the imported inflation argument is not quite convincing (except for 1979). To transfer the amount of debt service into foreign exchange requires a trade surplus which negatively affects the domestic supply of goods and so intensifies inflationary pressure. The institutionally determined inflation stems from those features of the economic system which confront the Yugoslav firm with a soft budget constraint. In the absence of the ultimate penalty, there was not enough motivation to diminish production costs; indeed, losses and deficit financing of investment were tolerated and covered by society at large.

Table 1. Structure of income and expenditure
(in per cent of GDP at market prices)

	1979	1980	1982	1983*
Consumers' expenditure	51.9	51.1	51.4	52.0
Government consumption	17.6	16.9	15.8	14.7
Gross fixed investment	34.6	31.7	27.1	23.9
Total of above	104.1	99.7	94.3	90.7
Stock formation	6.4	6.9	9.9	12.1
Total domestic expenditure	110.5	106.6	104.2	102.8
Exports of goods and non- factor services	16.0	22.3	19.0	18.9
Imports of goods and non- factor services	25.2	30.6	23.9	22.3
Balance of foreign trade	-9.2	-8.3	-4.9	-3.4
Statistical discrepancy	-1.3	1.7	0.7	0.6
GDP	100.0	100.0	100.0	100.0
Net factor income	3.8	4.7	4.3	3.8
GNP	103.8	104.7	104.3	103.8

* Provisional.

Source. Yugoslavia, OECD Economic Surveys (Paris, Dec. 1984,) p. 12.

Table 2. Inflation indicators (changes between successive years, per cent)

	1979-78	1980-79	1982-81	1983-82	1984-83	1985-84 I-VI/I-VI
Producer prices						
Industrial goods total	13.0	27.1	25.0	32.0	57.0	79.9
Investment goods	5.8	12.5	15.9	22.1	42.0	78.5
Intermediate goods	16.0	34.1	27.7	33.5	62.0	86.8
Consumer goods	11.0	21.2	25.0	31.6	53.0	69.5
Agricultural goods	25.6	35.6	34.9	45.6	49.0	-
Retail prices total	22.3	30.9	31.0	38.1	57.0	74.1
Cost of living	21.0	29.6	29.2	41.1	53.0	68.3
Export prices	15.1	19.2	7.1	-2.0	-	-
Import prices	19.5	19.6	2.1	0	-	-

Source. Savezni zavod za statistiku, Statistički godisnjak Jugoslavije (Statistical Yearbook of Yugoslavia, hereinafter cited as SBY), 1984, pp. 96-97;
SZS, Saopštenja.

It is not the purpose of this chapter to decompose the total inflation rate by its causes. That will be done implicitly later (in section 2.2) by looking at the main features of both the IMF and the Yugoslav anti-inflation and stabilisation packages. Here it should suffice to indicate the relative importance of components of the inflation rate.

Table 3. Contributions to the increase in prices (in per cent)

	1980	1982	1983	1984 estimated
Net unit labour costs ¹	6.0	7.5	8.7	12.0
Profits and other domestic costs ²	6.5	9.0	8.5	14.0
Food prices	8.7	7.5	8.0	11.5
Import prices ³	6.7	9.0	13.0	10.5
Net indirect taxes	1.5	1.2	2.7	4.7
Residual	1.0	-1.7	-0.7	0.7
Private consumption price deflator ⁴	30.5	32.2	40.0	53.7

¹ Excluding social security contributions.

² Profits, depreciation, increase in reserves, taxes and contributions paid on behalf of workers.

³ In dinars, including the effects of exchange rate depreciation.

⁴ Excluding non-productive services.

Source. Yugoslavia, OECD, op. cit., p. 13.

Inflation itself is a source of major problems to the economy and society. Real wages, personal consumption (to a smaller extent) and the standard of living have all been deteriorating for almost five years; income differentials which do not reflect work done are widening; and concern for the low-income strata of society is becoming more and more pronounced.

The high rate of inflation (compared to those current in Yugoslavia's main trading partners) is not balanced by exchange-rate depreciation and accordingly perpetuates the weak competitive capacity of exports. To make the necessary adjustment in the foreign trade sector is therefore extremely difficult.

1.3 External imbalance, indebtedness
and debt servicing

The external imbalance of the Yugoslav economy is clearly of a long-term nature and, to a great extent, institutionally determined. During the decentralisation period (1953-60), liberation from state monopoly of foreign trade resulted in a rapid real increase in exports and imports; but in the major part of the subsequent period, there has been a tendency for export growth to slow down and, in recent years, import growth has done the same. The result was increased trade and balance-of-payments deficits.

Table 4. Main foreign trade indicators (in per cent or US dollars)

	1961-64	1965-69	1970-79	1980-84	1965	1979	1984
Commodities exports:							
volume growth	8.6	7.7	4.2	3.7			
Commodities imports:							
volume growth	9.5	7.5	7.5	-9.6			
Degree of coverage of imports by exports					84.7	48.5	85.0
Exports per capita (US\$)					56.2	306.5	445.3
Imports per capita (US\$)					66.2	632.4	520.9
Share of balance of payments in GNP					1.6	-6.0	0.9
Balance of payments (millions of US\$)					73	-3 661	504

Source. SZS: Jugoslavija 1945-1964 (Beograd, 1965), and SZS: SBY 1984, pp. 93, 303.

Admittedly, the trade deficit was largely covered by the surplus from transport, tourism and other services, and especially by remittances from workers employed abroad. However, time has shown that this only promoted deferment of the required structural adaptations in production and exports and was not a stable source of improvement in the balance of payments. The 1970s also saw the beginning of a deceleration of the growth of foreign exchange earnings through invisible transfers.

Table 5. Balance of payments (in millions of US\$)

	1979	1981	1983
<u>Receipts</u>	14 525	22 281	17 054
Exports, provision of services	10 945	16 784	13 437
Export of goods	6 794	10 929	9 917
Services	4 151	5 855	3 523
Tourism	1 183	1 990	929
Transport	1 405	2 002	1 390
Other services	1 563	1 863	1 204
Workers' remittances	3 393	5 100	3 438
Interest received	188	397	179
<u>Expenditures</u>	18 187	23 031	16 780
Imports, receipt of services	15 683	17 866	13 336
Import of goods	14 019	15 757	12 154
Services	1 664	2 109	1 182
Expenditure of citizens on foreign exchange	1 683	3 058	1 733
Interest paid	821	2 107	1 711
<u>Balance of current account</u>	-3 661	-750	274

Source. SZS: Statisticki kalendar 1983, p. 110, and 1985, p. 102.

The poor export performance, the culmination of the trade and balance-of-payments deficits in 1979 and the enormous subsequent increase in foreign indebtedness are largely consequences of the failure to make structural adjustments which would stand up to the shocks transmitted by the world economy in 1973 and 1974. Even more vulnerable because of industry's increased dependence on imports and a higher proportion of indebtedness at variable rates of interest, the Yugoslav economy was unable to face the next series of shocks, particularly the second rise in oil prices (1979) and the unprecedented increase in real rates of interest on the world capital market.

According to reliable estimates,¹ the cumulative negative impact of worse terms of trade, reduced world demand for the country's typical exports and increased international rates of interest, amounted to 6.7 per cent of the GNP in 1974-75, to about 2 per cent in 1979-80, and to 10 per cent in 1981-82.

¹ IBRD: World Development Report 1985 (Washington D.C., 1985), p. 56.

To cover the resultant losses in foreign exchange receipts, and the increased obligations caused by the rise in interest rates, Yugoslavia resorted to an increase in her foreign debt.

Table 6. Debt indicators (in millions of US\$)

	Total debt ¹	Claims	Net debt	Foreign exchange inflow		Debt service			
				Balance of payments concept (1)	Cash flow concept (2)	Amount	Ratio (%)		
							(1)	(2)	
1978	11 833	1 107	10 726	11 446	10 927	2 110	18	19	
1979	14 952	1 220	13 732	14 526	13 911	2 582	18	19	
1980	18 395	1 526	16 869	18 172	17 251	3 357	18	19	
1981	20 804	1 585	19 219	22 281	20 841	4 308	19	21	
1982	20 260	1 718	18 542	19 439	17 512	4 211	22	24	
1983	20 501	1 848	18 653	17 033	14 564	4 640	27	32	
1985	(31.3) 19 458	-	-	-	-	-	-	-	-

¹ Including short-term debts.

Source. "Yugoslavia's credit and financial relations with the rest of the world, 1979-83", in Yugoslav Survey, Feb. 1985, pp. 45, 52, and Politika, 26 Aug. 1985, p. 4.

The bulk of the increased indebtedness was obviously concentrated in 1979, 1980 and 1981. Although from 1982 to 1985 there was no substantial change in the levels, after 1981 the debt-servicing difficulties became serious as a result of two coinciding adverse trends: the virtual stagnation or even reduction of foreign exchange inflow; and the increase in interest rates. As the part of the debt owed to the convertible currency area is much greater than the share of convertible currency in the total foreign exchange inflow, the debt service owed to the hard currency countries is disproportionately high: in 1983, it reached 34 per cent (balance-of-payments concept) or 43 per cent (cash flow concept),¹ respectively.

¹ Yugoslav Survey, op. cit., p. 52.

During 1983 and 1984 there was some refinancing and rescheduling of the debt. With her official creditors and a consortium of commercial banks, Yugoslavia renegotiated US\$2,574 million of her debt in 1983 and US\$1,746 million in 1984.¹

Since no additional resources will be acquired by a further increase of foreign indebtedness (indeed the opposite is the policy aim), the timing of the debt service payments scheduled for the next few years is a serious obstacle to development. The heavy and uneven concentration of debt service payments could seriously impair any sound and reasonable policy of growth revival and structural adjustment such as that contained in the draft five-year plan for 1986-90. Some restructuring and spreading of the debt service over several years would clearly be appropriate. In such circumstances the target contained in the draft five-year plan - to reduce the debt-service ratio to 25 per cent by 1990 - could be reached. Growth on those lines would enable Yugoslavia to carry out its employment policies also.

A considerable part of the external imbalance and poor export performance was due to Yugoslavia's own institutional acts. The exchange rate policy, the machinery for allocating foreign exchange, the mix of trade policy measures - all favoured import substitution at the expense of export promotion.

Changes in the institutional and policy framework are required. Such intentions will be discussed, in the context of structural adjustment programmes and policies, in the next chapter.

1.4 Utilisation of human resources:

The changing pattern

This section briefly describes the country's employment pattern and record; it then outlines some factors which have caused recent developments.

¹ IBRD: World Development Report, op. cit., p. 28.

1.4.1 Allocation of the workforce

The biggest categories are employment in the social sector, private employment, employment abroad (most often temporary) and unemployment. The changing pattern of use of the labour force is shown fully in table 7.

Table 7. Allocation of the workforce (in thousands)

Type of allocation	1953	1961	1971	1981	1984
Social sector employment	1 580	2 648	3 944	5 846	6 224
Private (agriculture)	5 360	4 692	4 208	2 488	2 297
Private (non-agriculture)	230	343	425	572	681
Total domestic employment	7 170	7 683	8 577	8 906	9 202
Registered jobseekers	59	233	290	833	975
Unemployed	35	140	174	500	585
Total domestic labour force	7 205	7 823	8 751	9 406	9 787
Emigrant workers	-	-	672	625	595
Total labour force	7 205	7 823	9 423	10 031	10 382

Sources. For all items except line 3 and column 5, various issues of SBY (1954, 1970, 1974, 1982, 1984). In line 3, all figures except those for 1953 and 1984 (taken from the above-mentioned issues of SBY and corrected by the estimate of private non-agricultural employment for 1979 in H. Lydall: Yugoslav socialism - theory and practice (Oxford, Clarendon Press, 1984), p. 160 and the corresponding figure in SBY). Private non-agricultural employment for 1984 is an estimate by the Federal Planning Bureau, corrected by the figure for the same category given in this table for 1981, and the Planning Bureau's estimate for the same year. The number of emigrant workers for 1984 is the Planning Bureau's estimate. Private agricultural employment for 1984 is the Planning Bureau's estimate, corrected by the estimate in this table for 1981 and the Planning Bureau's estimate for the same year. Social sector employment and the number of registered jobseekers for 1984 are taken from Indeks, 1985, No. 6, pp. 4, 49. In accordance with the widely accepted convention (cf. H. Lydall, op. cit., p. 161) the number of unemployed is estimated at 60 per cent of the number of registered jobseekers.

Two most conspicuous developments in the field of workforce allocation are undoubtedly a remarkable increase in the number of unemployed and an equally striking decline in the agricultural workforce. The overall rate of growth of social sector employment is 4.52 per cent. This rate is an average of those applying at different periods, which of course tend to vary, but not excessively. By far the largest is the rate realised in the earliest period (1953-61), which reached the almost incredible level of 6.67 per cent. No doubt this reflected the exceptional circumstances under which the economy was developing - and also the very low figure for the base year. The rates for the following periods were 4.06, 4.01 and 2.11 per cent respectively. The most recent is also the lowest and reflects the difficulties of adjustment in which the economy finds itself in the 1980s. It should not, however, be forgotten that, due to a much higher base, relatively low percentage rates may yield absolute increments as great as much higher rates in the past.

Since the social sector registered such a spectacular rise in total employment and in its share of the labour force, and since most of the social sector employees came from the private sector, it is only natural that the agricultural labour force should have undergone a marked decline. To a large extent, this was favourable both for agriculture and for the rest of the economy. Like most underdeveloped countries, Yugoslavia was burdened with excess agricultural population. Estimates of the size of disguised unemployment vary widely, most of them falling in the 25-40 per cent range. Expectedly, they also vary between the regions, reaching no less than 52 per cent for the least developed region (Kosovo) in 1960.¹ As personnel left agricultural occupations of relatively low productivity and took up considerably more productive non-agricultural jobs, they were introducing a powerful factor of increase in overall productivity and accelerating economic development. Unfortunately, as will be shown in the next section, population transfer at such a pace could not be kept up for long and had to end in much aimless unemployment, with all its undesirable effects on social stability.

¹ A summary of various estimates, mostly for Croatia but also for other regions, is given in Branko Horvat: The Yugoslav economic system (White Plains, New York, M.E. Sharpe Inc., 1976), p. 78. Another relevant source is Tripo Mulina, Milos Macura, Miroslav Rasevic: Stanovnistvo i zaposlenost u dugorocnom razvoju Jugoslavije (Beograd, Ekonomski Institut, 1981). This gives (p. 61) an estimate of the surplus agricultural population of Yugoslavia in 1971 as 1.2-1.5 million.

But, irrespective of that, the decline in the agricultural population was spectacular: during the recent three decades it decreased at an impressive annual rate of 2.7 per cent. The intensity of the exodus was, of course, not uniform during the period; and, curiously enough, it was out of step with the increase of employment in the social sector. During the four consecutive periods implied by the five columns of table 7, the rates of decline were 1.65, 1.08, 5.12 and 2.63 per cent. Employment in the social sector was an important but far from exclusive determinant of that exodus.

Private non-agricultural employment is not accurately measured. There is a wide range of estimates, often coming from the same source, which give disparate impressions about its size and growth. A reasonable guess would be that most of these estimates, including those given in table 7, understate this kind of employment. Such workers are not easily accessible to statistical inquiry and some of them probably carry on their occupations officially unobserved. Moreover, many employees in the social sector are engaged in various sorts of remunerative private pursuits during their spare time: this activity is known to be extensive, but it is statistically unrecorded; most estimates imply that it reaches an equivalent of more than one-third of the social product as officially computed. Whatever the exact size and rate of growth of private non-agricultural employment may be, it is intriguing that the increase should not fall far short of the rate of growth of employment in the social sector. Its growth rate in the period as a whole is 3.56 per cent (4.52 per cent for social sector employment) and in the separate periods proceeding from the table, it is given as 5.12, 2.17, 3.02 and 5.99 per cent. The first period was one of abundant opportunities and rapid growth of employment in both sectors; the number of self-employed outside agriculture therefore grew quite rapidly. During the rest of the period, a slight inversion in the behaviour of the two series of growth rates can be perceived: the number of self-employed tends to accelerate when social sector employment shows signs of deceleration, i.e. declining prospects of finding a job in the social sector induce people to act on their own initiative.

The number of registered jobseekers and, naturally, of unemployed grow most rapidly. The percentage rate of growth for the entire period is 9.27, and for the four periods, 18.92, 2.20, 11.13 and 2.98. Comparison of these rates with the rates of growth of social sector employment discussed above

provides an abundant basis for a Todaro-type hypothesis about the behaviour of potential jobseekers: the demand for jobs increases particularly fast during periods of rapid growth of social sector employment, and slowly in the contrary situation. Prospects of quick and easy employment obviously induce people to leave their existing occupations (mainly in agriculture) and look for something more attractive.

The substantial difference between the numbers of registered "jobseekers" and of genuinely unemployed is not difficult to explain. Some people register at several places. Others register to qualify for certain benefits although not in need of jobs. Still others would like to work but refuse the jobs available because of their nature of locality.

Reaching their peak of about 1,100,000 in 1973, workers employed abroad have declined in number ever since. The decline is systematic but slow, so that the number returning lags far below the official predictions (some 600,000 Yugoslav workers are still earning their living in the West). The Federal Planning Bureau estimates the annual decline of emigré workers in the 1980s at only 10,000, but the actual numbers reveal a declining tendency such that the Bureau's estimate must be revised, though it may have been a good approximation for the recent past.

1.4.2 Causes of changing workforce patterns

Some of the factors determining any pattern of labour use proceed from an analysis of the sources of supply and the components of demand. On the supply side, two sources are relevant to the Yugoslav case - population increase and the rural exodus. On the demand side, the dominant factor is employment in the social undertakings, but private non-agricultural employment and actual unemployment (if it can be called "demand") are also components. External migration has dual effects: during part of the period under review, it acted as a powerful attraction, whereas in recent years it has been a (minor) source of supply. Since previously it figured predominantly as a component of workforce demand, it is so treated in the present pages. The results are summed up in table 8.¹

¹ A slightly different arrangement of relevant items may be found in Martin Schrenk et al.: Yugoslavia - Self-management socialism: Challenges of development (Baltimore, John Hopkins University Press, 1979), p. 252; and Jelica Petrovic: Tipovi nezaposlenosti u Jugoslaviji, Marksisticki centar CK SK Srbije, Dec. 1984, mimeographed, p.3.

Table 8. Sources of labour supply and absorption¹

	1954-61	1962-71	1972-81	1982-84
<u>Labour supply</u>	100.0	100.0	100.0	100.0
Demographic increase	48.1	76.8	26.1	62.0
Agricultural outflow	51.9	23.2	73.9	38.0
<u>Labour absorption</u>	100.0	100.0	100.0	100.0
Social sector employment	83.1	62.2	81.7	75.2
Private non-agricultural employment	8.8	3.9	6.3	21.7
Net emigration (+) or immigration (-)	-	32.3	-2.0	-6.0
Unemployment	8.1	1.6	14.0	9.1

¹ This term, when applied to labour, includes not only voluntary but also involuntary allocation (unemployment).

Source. As for table 7.

On the supply side, population increase and the rural exodus played interchangeable decisive parts as sources of additional labour. It is difficult to be sure of any long-term cause behind this relationship, but the changing age structure must have played some role: whenever many young people become part of the labour force, the prospect of leaving agriculture weakens and the inducement to apply for a social sector job declines. On the demand side, the domination of employment in the social sector is unquestionable. The next biggest component (though incomparably smaller) is emigration during the 1960s. Unemployment emerges as a significant factor during the 1970s, while during the 1980s an unexpectedly large role is played by non-agricultural private employment.

More fundamental causes of the change in supply no doubt include the decline in the rate of population increase. Several downward trends are shown in table 9.

Declining growth rates for the total population and for people of working age certainly alleviate the overall employment situation. A division of the 1971-81 period, if it were shown on the table, would reveal a recent decline

as regards the active population also. The socio-economic structure contributes to these developments.

Table 9: Rates of growth by categories of population
(in per cent)

	Total population	Working age population	Active population
1953-61	1.1	0.9	0.8
1961-71	1.0	1.3	0.8
1971-81	0.9	1.0	1.1

Source. T. Mulina et al., op cit., p. 61; SBY 1984, pp. 112-113.

Against this background of decreasing demographic indicators, the rapid expansion of employment in the social sector must be duly borne in mind. As pointed out in the preceding section, that expansion was based on extremely high investment, financed largely from "outside" sources - foreign loans and the savings of the people. Easy borrowing and negative real interest rates only aggravated the deeply ingrained tendency to over-invest. Capital stock increased extremely fast and the average capital-output ratio, especially during the latter part of the period under consideration, had a strongly upward trend. That made for high costs of additional employment. The "no lay-off" rule may have discouraged hiring new personnel, but its overall influence was to increase employment in the social sector. High and rapidly rising capital intensity caused a relatively fast increase in labour productivity, which - owing to the institutional drawbacks described in the preceding section - led to a rise in the effective cost of labour, thus generating the second-round consequences which will ultimately discourage employment. Similar results are produced by the doctrinal function of the enterprise¹ - maximising income per worker - and this, other things being

¹ Cf. Martin Schrenk et al., op. cit., p. 180. One of those who feels very strongly that the doctrinal function of the Yugoslav enterprise makes a negative impact is Yugoslav Mijatovic: Elementi pristupa strategiji i politici zaposljavanja u Jugoslaviji (Beograd, Marksisticki centar CK SK Srbije, 1984), pp. 1-7; mimeographed.

equal, will minimise the number of newly employed. The only factor which might have counteracted the tendency towards underemployment was work in the private sector, but this is small and its role in providing employment a modest one.

The interplay of many mutually counteracting factors has finally caused an employment growth rate which is, by international standards, unusually high. It would have been much higher but for the institutionally imposed restrictions because of which the increase in employment, though great and rapid in a general sense, was not so impressive when related to the amount of investment used to sustain it.

One more determinant greatly contributing to employment expansion should be mentioned here, though it will be elaborated in the next section: the unusually high income differentials between the agricultural and non-agricultural sectors, which have induced many people to leave agriculture and never to return.

1.5 Unemployment - Volume and some structural characteristics

The importance of employment is frequently voiced in mass media and professional literature.¹ By implication, unemployment is a grave social problem and demands serious consideration.

1.5.1 Impact of demographic factors

Demographic factors provide an overall framework within which various flows of employment and unemployment are woven together into what might be called the general employment situation. This depends on such demographic factors as the rate of population growth, changes of the activity rate, emigration and immigration, which are outlined in subsection 1.4.1. Fundamentally, the demographic factors appear to exert a favourable

¹ To cite just one example, employment has been called "a means of self-realisation, a basis of social status and a source of living"; cf. Tripo Mulina and Radoslav Cvetkovic: "Projekcije kvalifikacione strukture zaposlenog osoblja SR Srbije u perspektivi do 1986.godine", in Ekonomski misao, 1971, No. 4, pp. 39-66.

influence: there is a clear declining tendency in all three rates of growth - those of total, working-age and active population. True, the deceleration as regards working-age population is a very recent phenomenon, but prospects of its increasing are almost certain. In the past the age structure has mostly contributed to the growth of the active population: in the 1960s it contributed 1.5 points to the rate of growth of the labour force, and in the 1970s the contribution rose to 1.7 points. Projections for the period up to the end of the century reveal the coming negative effect of that factor. Indeed, the decline of activity rates tied to age was a negative factor throughout the period under consideration.¹

Equally important are the changes in socio-economic structure measured by the respective activity rates of agricultural and non-agricultural population. The agricultural population has a considerably higher activity rate (in 1981, the year of the latest population census, it was 58.2 per cent, whereas the activity rate of the non-agricultural population was only 40.7 per cent):² so reduction of its share exerts a strong downward pressure on the rate of growth of the labour force. Some effect on the rate of growth of the labour supply is exerted by the changing sex structure of the population, the activity rate for males being considerably higher than that for females; but that influence is of marginal significance.

It should be observed that the activity rates for old people and females are still rather low, especially when compared to those of the developed countries. So there must be substantial reserves consisting of people who are not effective but potential members of the labour force. This to some extent aggravates the employment situation, because when the present unemployed are provided with jobs, their places as unemployed will be taken by "recruits" coming from these reserves.

Demographic determinants of unemployment have their regional aspect. The reserves discussed above appear to be much greater in the underdeveloped than in the developed regions because the formers' activity rates are lower. T. Mulina et al. find that in 1971 the activity rates for underdeveloped

¹ Cf. T. Mulina et al., op. cit., p. 71.

² SBY 1984, pp. 114-115.

regions ranged from 26.0 per cent in Kosovo to 38.3 per cent in Macedonia, whereas the same rates for developed regions varied between 42.7 per cent in the Vojvodina and 51.5 per cent in Serbia proper.¹ The results of the latest (1981) population census confirm the above findings: the activity rate for Kosovo was 23.8 per cent and for Serbia proper 51.8 per cent.² Clearly, these facts have important and far-reaching implications for future employment policy and overall development strategy.

1.5.2 Volume and structure of unemployment

There are various ways of measuring unemployment, but no matter which of them is chosen the final conclusion is unequivocal: unemployment in Yugoslavia is both unexpectedly large and still rising fast. For a self-managed socialist society this is a serious embarrassment and cannot fail to cause considerable concern. In the present study unemployment will be measured in three alternative ways: by the share of unemployed in the labour force, by the share of registered jobseekers in the labour force and by the ratio of registered jobseekers to the sum of the number of jobseekers and social sector employment.

Table 10. Alternative measures of unemployment

	1953	1961	1971	1981	1984
Unemployed as per cent of labour force	0.49	1.79	1.85	4.98	5.28
Jobseekers as per cent of labour force	0.82	2.98	3.08	8.30	8.80
Jobseekers as per cent of own number plus employed in social sector	3.60	8.09	6.85	12.47	12.76

Source: As for table 7.

All the above indicators cannot be treated on an equal footing. The first two are based on the assumption that private agricultural work is a full and adequate occupation, which is far from always being the case. The first indicator, in addition, takes into account only those jobseekers who are

¹ Op. cit., p. 62.

² SBY 1984, p. 440.

believed to be in real need of work, whereas those who probably have occupations which they consider inadequate (and therefore seek jobs) are disregarded. Besides, both the first two exclude workers in emigration, although their problems cannot be regarded as solved by the domestic economy. So the greatest weight ought perhaps to be attributed to the third indicator, for it includes all those who are dissatisfied with their present employment status and so constitute the real demand for new jobs. Yugoslav official employment policy is based on this indication and plans to reduce it to some socially acceptable level.

According to all three indicators the rate of unemployment made a spectacular leap during the 1950s (due to the extraordinarily low base in the initial year), more or less stagnated during the 1960s, and then recovered rapidly during the last 10 or 15 years. A more realistic way of assessing the real degree of unemployment is to take into account various forms of underemployment, such as disguised unemployment in agriculture and excessive personnel in the social sector. A tentative estimate of labour underutilisation shows that actual rates of unemployment exceed those officially recorded, though many persons who are really unemployed may not be looking for jobs. If one starts from the lower limit of disguised unemployment in agriculture in 1971, given by T. Mulina et al.,¹ and reduced it in proportion to the extent to which the agricultural labour force was reduced, one arrives at an estimate of disguised unemployment in agriculture of 655,000 persons. Adding to this the number of emigré workers and the number of registered jobseekers, one obtains 2.16 million as the number of persons who are either unemployed or inadequately employed, or temporarily employed abroad. That figure amounts to no less than 20.9 per cent of the labour force. In addition, one might take into account the disguised unemployment in the "modern" (social) sector, stemming from constant pressure by communal and other authorities to employ more staff.² There are various

¹ Op. cit., p. 61.

² Cf. Mijatovic, op. cit., p. 8. It should also be taken into account that the virtual absence of shutdowns and lay-offs greatly inflates the ranks of the employed. In fact, excessive employment is an acyclical variable: it rises when business is down, for the number of workers does not diminish. Since 1984 was a year of low business, the labour surplus in the social sector is probably underestimated.

estimates of hidden unemployment in the social sector, most of them range around 30 per cent. Applying this factor to social sector employment in 1984, one obtains an additional 1.87 million which, together with the previously estimated 2.16 million, give a total number of unemployed, underemployed or inadequately employed of 4.03 million persons, or 39 per cent of the labour force. It was shown above that in many age groups and regions, rates of real activity appear to be quite low and to imply significant reserves, which should be added to the underemployment estimate just reached. Summing all this up, it could be reasonably estimated that unused reserves of various kinds made up close to one-half of the total labour force in 1984.

A disturbing feature of the situation is that the increase in the various categories of unemployment and underemployment is accompanied by undesirable structural changes among jobseekers. The principal changes consist of increases in the respective proportions of the following groups: (i) young persons and those without previous working experience; (ii) those who have to wait a long time for their jobs; (iii) skilled and highly skilled personnel; and (iv) women.

Table 11. Some structural features of the unemployed (in per cent)

Attribute	1952	1965	1970	1975	1980	1983
<u>Age</u>						
Up to 18	-	13.5	9.5	6.4	6.9	7.4
19-24	-	28.4	37.3	48.4	48.6	52.0
25-39	-	39.4	39.0	33.0	33.2	31.7
40 and over	-	18.7	14.2	12.2	11.3	9.0
<u>Time of waiting (years)</u>						
0-1	-	84.5	76.0	67.0	50.8	48.6
1-2	-	8.0	10.0	16.2	20.2	20.3
2-3	-	4.2	6.1	8.4	11.7	11.6
3 and over	-	4.3	7.9	8.4	17.3	19.6
<u>Skill category</u>						
University, higher or secondary education	-	4.5	13.2	17.5	26.1	34.7
Skilled and highly skilled manual workers	-	11.7	12.7	19.2	17.1	17.6
Semi-skilled and unskilled	-	83.8	74.0	63.5	56.8	47.8
<u>Sex</u>						
Male	46.3	46.7	51.0	48.8	43.6	43.1
Female	53.7	53.3	49.0	51.2	56.4	56.9

Source: For 1952-80, J. Petrovic, op. cit., pp. 7-8; for 1983, SBY 1984, pp. 139-140.

The figures in table 11 corroborate the statements preceding them. The most disquieting is probably the constant increase in the proportions of young people and of the highly skilled in the structure of unemployment. It should also be pointed out that the share of women, having undergone a steady decline, appears to be on the rise again: that, among other data, reflects the increasing activity of this category of the labour force.

1.5.3 Income differentials as causes
of employment or unemployment

The question of the causes of unemployment in Yugoslavia may be approached from different angles, depending on the context in which the analysis is carried out. Various causes have already been elaborated or at least mentioned.

Among the factors contributing to a rapid increase in employment, there is an unprecedented propensity to invest, determined by: (i) the implicit subsidy, due to a negative real interest rate on credits; (ii) decentralisation of responsibility for development policy and the endeavours of every town or village, republic or province, to develop as fast as possible; (iii) the use of abundant foreign resources to finance investment, as well as the practice of siphoning off the resources of the private peasant economy to promote development of the social sector;¹ and (iv) virtual absence of risk to investors, with the most undesirable consequence that the cost of false decisions is borne by social capital.

The complex interplay of many institutional factors and development policy actions has produced a rapid increase in employment, although - at least in theory, but probably in practice as well - basic economic units are not as interested in expanding employment as their counterparts in other economic systems. True, the structural rigidities and "no lay-off" rule may have partly compensated for the destimulating effects of having employment decisions taken by local or regional units, but the clash of these two forces was probably unfavourable to employment. The tendency of the system to

¹ This did not in itself cause capital intensity, but the features of the system which are described above developed a strong bias towards increasing capital per person.

over-invest and to generate an excessively high capital intensity has been demonstrated in section 1.1. Thus the system has generated many jobs, but at a very high cost; with a different institutional arrangement the same amount of resources would have brought more jobs into existence.

But, given the fact that, after all, a very large number of jobs was generated, the question arises how it was possible for unemployment to reach such a big volume. The answer lies in the unprecedented influx of the agricultural labour force into non-agricultural sectors. What has been the reason for that extraordinary transformation?

There have been both push and pull factors at work. The push factors are easily reduced to the ideologically inspired, inimical - but only occasionally harsh - policies towards the private sector in general and private agriculture in particular. Life in the private sector has not been easy and leaving it has often proved to be the right solution.

Among the pull factors a decisive role has been played by the vast income differentials between the agricultural and non-agricultural sectors. In fact, the Yugoslav labour market has a markedly dualistic structure: despite rapid and sustained development of the country as a whole and intensive rural-to-urban migration, most of the time the income of an agricultural worker has been only about half the corresponding non-agricultural income. The differences in household incomes are even more striking: some estimate that in 1970, the household income per worker in agriculture was hardly one-third of the corresponding household income outside agriculture; in the late 1970s, it was still less than one half. That, of course, was not the whole difference, since social sector workers employed a whole range of subsidiary benefits. This mass of inequalities was further aggravated by substantial regional variations, whereby agricultural workers and households in the underdeveloped regions fared particularly badly.

Some information on the income disparities is presented in table 12.

The consequences of such wide income disparities are apparent. There was permanent high pressure for social sector jobs, which resulted in an intensive rural exodus whenever a change was possible; the movement was occasionally checked by administrative means.

Table 12. Comparison of agricultural and non-agricultural incomes
(in per cent)

	1960	1962-64	1968	1970	1972	1974	1979
Private agriculture as per cent of social sector ¹	38.8	39.0	30.0	31.0	37.0	45.0	34.4
Private agriculture as per cent of average social sector unskilled ²	-	57.0	41.0	49.0	52.0	68.0	-

¹ I.e. income in private agriculture as percentage of average income in the social sector.

² I.e. income in private agriculture as percentage of average income of unskilled workers in the social sector.

Sources. H. Lydall, op. cit., p. 164, for 1960 and 1979; M. Schrenk et al., op. cit., p. 247, for the other years.

The exodus from agriculture has greatly contributed to the increase of agricultural productivity and incomes and the differences (compared with the social sector) have been somewhat reduced: the impulse to leave agriculture has therefore diminished. The proportions of what might be called a major social disequilibrium between the two sectors is now declining. At the same time the character of the pressure to create new jobs is changing: instead of agricultural migrants the pool of unemployment is being filled by urban jobseekers for whom agriculture is no alternative. The rural-urban migration is slowing down, not only because there are less people left to migrate, but also because - as already stated - the income gap between the sectors is perceptibly narrowing.

1.5.4 Regional aspects of unemployment

The real difficulties associated with unemployment relate to its extremely uneven regional distribution. The rate of unemployment, no matter how defined, varies in a wide range, starting from Slovenia, where full employment in the strict sense had long been achieved, and ending with Kosovo, where the volume and structure of unemployment are almost terrifying.

The reasons for such an unequal position of the developed and underdeveloped regions fall naturally into two groups. On the one hand, the inadequate industrial base and low efficiency of the economy imply an insufficient employment potential, which is only aggravated by orienting these regions towards capital-intensive operations. On the other, the less developed regions have incomparably higher rates of population growth. Whereas in the last census year (1981) the rate of growth of population for Yugoslavia as a whole was quite modest (0.72 per cent), the rates for various regions were highly differentiated. Among the underdeveloped regions it ranged from 1.04 per cent for Bosnia and Herzegovina to 2.53 per cent for Kosovo, while among the developed regions it varied between 0.14 per cent for the Vojvodina and 0.42 per cent for Slovenija. The inter-regional variation of population growth rates was even more pronounced: so it comes as no surprise that successive - and abundant - generations of young people storm the employment agencies in underdeveloped regions without any significant prospect of getting badly needed jobs. To make the situation worse, the less developed regions are saddled with the largest part of the country's surplus agricultural labour, so that the demand for new jobs is even more pressing than it would otherwise be.

Deep-seated ethnic, cultural and linguistic differences make it impossible to alleviate the problems of uneven unemployment distribution and impact by migration. Besides the objective, historical obstacles to this solution, there are additional reasons, stemming from the peculiar structure of the economic system and the prevailing social organisation. Regional income differentials in the social sector are very low and do not provide sufficient incentive to migrate. The shortage of housing is an additional obstacle. The cost of searching for a job outside one's traditional environment is high and the probability of finding one is low. Consequently, the labour market is sharply divided along regional lines: full employment in some parts of the country coexist with massive unemployment in others.

Despite such crass imbalances, the prospects of alleviating the problem by regional specialisation and, in particular, by directing the underdeveloped regions towards labour-intensive industries, are extremely modest. As pointed out above, for institutional reasons the differences in income are quite narrow, and even that slight advantage is discounted by big productivity differentials in favour of the developed regions. So even with existing wage

rates, developed regions have a cost advantage for labour-intensive operations and are able to attract them.

The regional unemployment situation is measured by the number of jobseekers shown as a percentage of the sum of jobseekers and persons employed in the social sector.

Table 13. Regional rates of unemployment (in per cent)

Region	1960	1964	1970	1975	1980	1984
<u>Underdeveloped regions</u>						
Bosnia and Herzegovina	4.0	4.7	5.3	12.3	14.1	19.0
Montenegro	6.4	6.4	6.0	15.1	14.7	19.6
Macedonia	12.7	12.5	18.3	22.2	21.5	21.2
Kosovo	19.3	19.8	20.0	23.8	27.6	34.2
<u>Developed regions</u>						
Croatia	5.6	5.4	4.3	3.9	4.9	7.7
Slovenia	1.8	1.5	2.8	1.7	1.4	1.7
Serbia proper	6.5	7.4	8.2	13.2	15.8	14.2
Vojvodina	5.0	3.4	5.8	11.3	12.4	13.2

Sources. SBY for various years: 1984, pp. 448 and 454; 1978, pp. 420 and 431; 1970, pp. 332 and 347. Rates for 1984 estimated on the basis of Indeks, No. 6, 1985, pp. 6 and 10.

The story of the Yugoslav unemployment problem is told clearly enough in the above table. The unemployment rates in the underdeveloped regions are, on the whole, very much higher than in the developed regions: in 1984, the ratio between the two averages was 1:2.7. It should be noted that within each group there are significant variations and that the "worst" region in the latter group comes close to the "best" region in the former. The differences between the two groups of regions also show a clear tendency to increase in course of time, as do the disparities between their respective overall development levels.

Evidently the persistent problem of unemployment in Yugoslavia can be solved only in the framework of a comprehensive, efficiently implemented long-term policy of regional development.

II. INSTITUTIONAL CONSTRAINTS IN THE IMPLEMENTATION OF DEVELOPMENT AND ADJUSTMENT PROGRAMMES

It has already been pointed out that structural discrepancies in the Yugoslav economy have deep institutional roots. These are of at least two kinds. On the one hand, distorted indices of the value of resources and incorrect parameters to guide their allocation convey the wrong signals and falsify incentives: the results are misplacement of resources and further reproduction of an already irrational structure. On the other hand, for separate institutional reasons, important decision-making agents¹ are not sufficiently sensitive to allocation parameters and especially to the changes in them. The process of allocation is therefore characterised by persistent inertia, which impedes the necessary adjustment to changing external and other circumstances. We shall take up the issue by dealing first with some deficiencies at the implementation stage, in a decentralised framework of economic policy. Next we shall turn to the deficiencies of the market mechanism, analysing the distortion of parameters under which it has to operate and their disregard by economic agents.

Before proceeding to a more detailed analysis we should point out that the performance of the system seemed, until the middle of the 1960s, to be extraordinarily good and, up to the beginning of the next decade, to be no more than satisfactory. Two factors account for the change. First, until the later 1970s the country enjoyed an unusually big volume of supplementary resources from abroad - in the form of foreign aid, credits on concessionary terms, workers' remittances and other types of unilateral transfer. The inflow of foreign resources was most intensive in the period witnessing the highest rate of growth and the most favourable values of other indicators. Foreign resources not only supplemented domestic savings but also greatly alleviated problems of the latter's immobility and were used to overcome the worst bottlenecks in the Yugoslav economy. Second, there have been several far-reaching institutional changes, culminating in the Constitution of 1974 and the Law respecting Associated Labour (1976). Although commendable from the standpoint of self-management democracy, the new legislation brought a number of inefficiencies into the economy. Many instruments of economic

¹ As explained later, "economic agents" are any persons who participate in major economic decisions.

policy were transferred to the federated republics or local authorities, which developed a strong autarchic trend. Enterprises were split into smaller, less efficient units: their propensity to keep their internal savings and to invest these in their own expansion - thus further reducing capital mobility - was greatly intensified. In short, the nature of the system has significantly changed and is causing deterioration of its performance. But equally important is the fact that during the more "successful" stage of Yugoslav development the indicators partly reflected the inflow of foreign resources and so cannot be attributed to inherent features of the system. High investment rates have also to a large extent been due to the inflow of foreign capital.

2.1 Characteristics of the planning system

There are many ways in which the features of the present planning system can be tied in with the observed shortcomings of resource allocation. First of all, the problems of formulating objectives are separated from the problems of their implementation.

2.1.1 Formulation of objectives in the planning system

As the planning system is generally recognised as rather ineffective, understanding of its relation to resource allocation depends more on ascertaining what it has not done than on its actual performance. Successive medium-term plans have repeatedly emphasised the development of priority sectors (energy, raw materials, food, etc.) but actual events have taken a different course. The most that was accomplished was an increase of the share of priority sectors in total investment, but in most cases: (i) the increase was significantly below the planned target, and (ii) the deviation of the rate of growth was even more pronounced, because the actual capital coefficients turned out to be much higher than had been envisaged in the plans. So, rather than eliminating, successive plan periods further aggravated certain structural disproportions.

The Yugoslav planning system, like any other, has to start from a set of strategic objectives and basic directions for future development, which have to be politically determined. That stage of the planning process is rather involved in Yugoslavia, which is a federal and largely decentralised country

in which the federated units have a great deal of autonomy, a wide range of responsibilities and a keen interest in their own development. As considerable resources are allocated by way of bargaining, conflicts are bound to arise. Each partner feels that the share he obtains corresponds increasingly to the vigour with which he puts up his claims. Since in Yugoslavia plans are based on social compacts which embody agreement on the key elements of the future development and, in particular, reconcile conflicting interests, it is only natural that the planning stage takes a great deal of time and often leads to unsatisfactory compromise. Given the federal structure of the country and the apparent rates of unemployment prevailing in the various units, it is difficult to arrive at a harmonised set of employment objectives. The priorities arising out of the above process may be the wrong ones: that alone can contribute to structural disproportion. The amount of time taken makes matters worse: the last two five-year plans had to be finished and put into effect before completion of the negotiating stage, which should evidently precede.

The problem of arriving at an agreed set of objectives is further aggravated by the marked tendency of the republics, provinces and local authorities to prefer a short-run process of harmonising respective interests. A more flexible arrangement would evidently obtain if the satisfaction of some participants' claims could be postponed until some future time, when more efficient and dynamic strategies could be identified which would bring substantial benefits to all participants. There are several reasons for the short-run orientation: insufficient resources, which prevent participants from "waiting their turn" for bigger shares of the common resources; the poor record of plan implementation; and a general lack of confidence that what is postponed will ever be effectuated. So, obsession for the short run stops participants from making some significant gains for all the republics and smaller authorities and for society as a whole.¹ Similar effects are generated by the propensity of participants to seek the satisfaction of their particular interests in every concrete programme and every individual undertaking, rather than to accept large and co-ordinated

¹ Ljubomir Madzar: "Privrednosistemska izgradnja kao komponenta razvojne strategije", in Zbornik Matice srpske za drustvene nauke, 76, Novi Sad, pp. 35-61, particularly pp. 46-48.

"packages" of such schemes. That tends to split up the process of negotiation and to make it more time-consuming and less efficient.¹

2.1.2 Weaknesses of implementation within a decentralised policy framework

A peculiar feature of the present planning system is that separate agreements - formal or informal - between participants are required to reach not only harmonised objectives but also mechanisms for their implementation. That complicates the implementation process and brings additional distortions into the allocation of resources. Moreover, many policies are decentralised at the republic level and, to an almost equal extent, at that of the local authority. This creates difficulties in the co-ordination of policies and makes it impossible to control efficiently the functioning of the economy as a whole.

One aspect of such a procedural arrangement for policy formulation and implementation is the slow pace at which the decisions are made. It takes a considerable time to agree even on the diagnosis of a situation, because different diagnoses imply different policies for underlying problems, and these reveal the grounds on which conflicting interests can intersect. But of course still greater difficulties are encountered in formulating the policies and in implementing what has previously been agreed. It transpires that interests have to be harmonised and mutually exclusive stances reconciled, not only at the stage of deciding what should be done, but also at that of determining how it should be done. Such a state of affairs involves long time-lags and partly explains why the system reacted so slowly to the energy crises caused by the oil shocks of 1973 and 1979. Slow reaction to changes in the environment is a source of continuing inefficiency. It reduces the economy's potential ability to accumulate and grow, and ultimately reduces

¹ On the harmfulness of trying to achieve a social consensus on each of a large number of related issues, rather than seeking agreement on comprehensive packages, valuable insights are provided by Neven Mates: "Nacionalni ekonomski interesi ili nacionalni ekonomje", in Nikola Cobeljic, ed.: Dugorocni razvoj Jugoslavije - ostvarenja, ciljevi, potrebe, Beograd, Ekonomski zbornik II, SANU, 1982, pp. 247-254.

also its capacity to generate employment and diminish the large reservoir of unemployed.¹

2.2 Absence of factor markets: Pricing distortions

It would be strange if an economy with deep structural disproportions were to be found without corresponding distortion in resource pricing, which is usually the reverse side of the coin of structural imbalance.

Since market signals are in fact changes in the relevant allocation parameters, the first thing to note is that factor markets stricto sensu are absent from the Yugoslav system. A capital market is unacceptable on deep ideological grounds, for it would imply distribution according to the ownership of capital: a surrogate is constituted by the banking system, which mobilises private savings, invests them in the social sector, and pays some interest to the owners; but a capital market in the sense of share transactions and provision for property incomes on the part of enterprises in the social sector is not likely to come into existence in the foreseeable future. Labour markets are equally unacceptable because they imply wage rates determined by the market and in some cases indexed - a position incompatible with the basic view of workers as entrepreneurs and organisers of production processes, whose incomes are therefore determined residually. At present there is no foreign exchange market either, though there are no obstacles to it which could be regarded as matters of principle. The reasons here are more of a down-to-earth nature: spectacular changes in the demand and supply of foreign exchange have increased its equilibrium value to a level which is considered intolerable in view of the disruptions it would create if applied in various segments of the economy, and the inflationary pressures that using it would generate throughout. Of course, with an exchange rate significantly below the equilibrium, it is not easy to establish or to maintain the market because there inevitably spring up tendencies to try to satisfy excessive demand and to withhold, whenever possible, available supplies.

¹ Compare Harold Lydall: Yugoslav system - Theory and practice (Oxford, Clarendon Press, 1984), pp. 110-123. Difficulties in arriving at a mutually agreed set of objectives and at concrete mechanisms and actions necessary for their implementation are forcefully described in Brank Horvat (ed.): Ekonomske funkcije federacije (Beograd, Institut ekonomskih nauka, 1970), pp. 9-12, 22-31.

2.2.1 Valuation of resources

The absence of factor markets cannot imply the absence of resource valuation, for factors have to be valued in some way as long as they are scarce. The lack of markets has evident effects on Yugoslav resource valuation, which is inconsistent with available quantities of relevant resources, differs widely according to their particular use, and is thus incompatible with an efficient allocation of resources.

As for labour, its extremely unequal valuation is a matter of serious and lasting concern to Yugoslavia as a society. Inequality is seen as a derogation from the fundamental principle of remuneration according to work done. The mechanism causing this economically irrational and socially unjustifiable deviation is quite simple. Instead of the functional distribution of income, the share for the whole factor is lumped together and workers determined their own incomes. This is done within accepted limits, formal or informal, but there is always scope for those who have higher rates of income as workers to obtain higher personal incomes. In a working collective, income per worker reflects not only the intensity of the work and the entrepreneurial level, but also such largely exogenous factors as capital intensity, degree of monopoly, innovations, the pace and character of technical progress, and the ability of the firm to secure favourable prices from the competent authorities. The distribution of these additional determinants of per capita income between sectors and (within sectors) between firms is notoriously unequal. Authorisation of collectives to divide workers' incomes into personal income and "business savings" (taxes etc. may be disregarded in this connection) makes it possible to increase personal incomes on account of those amounts which, properly speaking, correspond to the additional production factors mentioned above. The final result is twofold: (1) personal incomes are significantly above the levels which would be justified by availability of labour and by demand and supply considerations; (2) the same kind of labour receives widely differing remuneration in different sectors and firms. This proves the inability of the system to produce even remotely similar wage levels and is also contrary to both economic efficiency and social justice.¹

¹ For an extensive empirical investigation of these discrepancies (which, among others, include the fact that at the industry level, remuneration for the same work varies to the extent of 1:2), see Sofija Popov: "Intersectoral relations of personal incomes", in Yugoslav Survey XIII, 1972, No. 2, pp. 63-80, and "Medjunarodna uporedna analiza sektorskih struktura zarada", in Ekonomiska misao, 1981, XIV, No. 1, pp. 49-71.

To make the mechanism for factor price formation even worse from the standpoint of resource allocation, the overpricing of labour was accompanied by the underpricing of collective capital. To begin with, the existing physical capital used to be valued by a "fixed capital charge", which was levied on the book value of fixed assets, but was abolished in 1971. From then on the entire rent was left with the enterprises and could be used both for its own "savings" and for personal incomes.

Treating the existing capital as a free asset was supplemented by drastic underpricing of financial capital. The policy of cheap credits was one of the permanent features of Yugoslav development policy. Whereas it made some sense during the period when the economy was relatively stable, it was continued well into the period in which rates of inflation rose unexpectedly high and much exceeded the nominal rates of interest. Real interest rates thus became negative and, indeed, took on very high absolute values. S. Radmilovic examined them to some detail in a recent paper.¹ His findings can be summed up as follows: interest rates paid varied in the period 1976-84 between 5.48 and 8.11 per cent; interest rates received varied in the same period between 7.93 and 13.43 per cent; at the same time, the rate of inflation varied between 9.8 and 57.0 per cent.

Summing all this up, one is led to the conclusion that factor valuation has been just the opposite of what, on the basis of purely economic principles, it should have been: the abundant factor, labour, is systematically overpriced (and largely unemployed), whereas the scarce factor, capital, carries a nil or even a negative price. Such allocative parameters falsified the choice of sectors and products, of investment projects, of the mix of production and imports for export and consumption, and lastly of production technology.

2.2.2 Product pricing

Fundamental distortions in factor pricing cannot but induce equally crass distortions in product pricing. In short, relative prices of labour-intensive products became excessively high, whereas the prices of the capital-intensive

¹ Stanko Radmilovic: Problemi kamate, kamatnih stopa i revalorizacije sredstava i kredita, Novi Sad, 1985, mimeographed, p. 23.

products plunged to uneconomically low values. In both cases the prices are out of line with opportunity cost and do not provide correct information about alternative courses or about the ways in which available resources should be committed.

Price disparities can be, and in Yugoslav literature have been, demonstrated in several ways. An especially effective way is to compare actual and so-called equilibrium income. The usual procedure is to reduce total sectoral employment to a number of "conditional units": this is a way of expressing the whole labour force in equivalent units of unskilled labour (a synonym of Marx's "simple labour": it is done on the basis of income differentials for various skill categories at the level of the country as a whole); total labour income is then divided by the country's labour force expressed in such units. In the same way, total rent is divided by the book value of fixed and circulating assets. An average valuation of capital and labour is thus obtained for the country as a whole. Multiplying the number of units of capital and labour in a given sector by these average unit values, and aggregating the "normed" factor incomes so computed gives "equilibrium" income for a given sector in a given year. Equilibrium income is thus calculated as the sum of the product of factor quantities, expressed in equivalent units, and corresponding weights, which represent average resource valuations for the social sector of the economy as a whole: the relative position of a sector is then assessed by comparing its actual with its equilibrium income. One such investigation, at the level of ten large sectors, gave the following results (see table 14).

The figures in the table vividly confirm the above theoretical considerations. Underpricing of capital led to low relative prices in capital-intensive sectors, which therefore have lower actual incomes than the "equilibrium" incomes they would earn had the capital been priced in the usual way. It is revealing to find that industry, agriculture and particularly "transport and communications" and housing have sub-normal incomes (their indices are below 100 per cent). On the other hand, such labour-intensive sectors as the building industries, trade and handicrafts show indices systematically exceeding 100 per cent. Had the products been valued at their "equilibrium" prices, all sectors would have percentages equal to 100. Also, a more detailed breakdown would show far greater differences between the economic positions of various sectors. Clearly, this not only reflects a

highly distorted price structure, which gives off faulty signals for allocation of resources and tends to perpetuate an existing distorted structure of production that is inconsistent with both market demand and social needs. The distortion also hampers the process of structural adjustment and makes it more difficult to overcome tensions caused by changes in external conditions.

Table 14. Economic position of major sectors of Yugoslav economy

Sectors	Actual income shown as % of "equilibrium" income				
	1975	1976	1977	1978	1979
Industry and mining	103.3	97.4	98.4	98.0	97.5
Agriculture and fisheries	99.2	103.5	97.6	88.6	91.1
Forestry	88.0	81.6	86.1	89.9	91.1
Water management	77.6	74.0	80.9	84.2	85.1
Building industries	102.9	105.6	104.9	107.5	-
Transport and communications	97.4	92.5	91.4	95.4	-
Trade	98.6	108.6	107.6	104.7	-
Catering and tourism	91.1	89.3	84.7	86.9	-
Handicrafts	108.2	109.0	107.1	107.3	-
Housing and communal services	94.7	93.0	93.9	93.8	-

Sources. Konzorcijum ekonomskih instituta za projekt "Privredni sistem SFRJ", in Dohodak u jugoslovenskoj privredni (Beograd, Institut ekonomskih nauka, 1981), pp. 96-128; and S. Babic: "Polozaj u primarnoj raspodeli privrednih subjekata i namenska alokacija dohotka", in Ekonomski anal, 1980, No. 68-69. Cited in Todor Spariosu: Metodologija izrade i ocena investicionih projekata u agroindustrijskom kompleksu, M.A. Thesis, Beograd, Ekonomski fakultet, 1985, p. 73.

Implications with respect to employment are also clear: obstacles to adjustment of the structure make it more complicated to engage labour for the collectively most effective operations and easier to keep large quantities of labour in activities where its contribution to production is relatively low. In the long run this is bound to reduce the employment potential of the economy. The short-run effects may, surprisingly, take the opposite direction: low mobility of employed labour means that expansion of production and creation of new establishments must - more than in other economies - rely on employing new workers and thus causing short-run tendencies towards

overemployment. As frequently happens in economic life (and life in general), short-run gains may be obtained at the price of long-run losses.

Especially important are the effects on the regional division of labour. The overpricing of labour and, consequently, increases in the relative prices of labour-intensive products made it possible for the developed regions to concentrate on the industries producing those products and prevented the underdeveloped regions (with abundant supplies of labour) from using their advantage in that respect. A more rational utilisation of the entire productive potential would, among other things, require a thorough, far-reaching inter-regional relocation of the industrial sectors.

2.2.3 Savings potential of the economy

The mechanism of income distribution and factor price formation described above could not have failed to produce a steady decline in the savings of the economy and a growing dependence on credits and other external sources of finance.¹ That is what is understood by the frequent allegation that "the accumulative and reproductive ability of the economy" is on the decline. Without a detailed analysis, it may be pointed out that there have been relatively long periods in which personal incomes grew much faster than labour productivity, causing a systematic movement of income towards labour and away from capital. The rapidity of this redistribution process depended mainly on the number and type of constraints imposed on the formation of incomes by state and analogous arrangements. The phenomenon of a declining savings potential has had frequent and thorough empirical investigation. A recent survey by the Institute of Social Studies (Centre for Economic Research) identified distinct and remarkably clear declining trends in several indicators of the economy's savings potential.² The authors have computed net and gross internal savings; the indicators are the share of net savings in income and the percentages of net and gross savings in the book value of fixed assets. Income is roughly equivalent to value added. The results are given in the following table.

¹ The "savings of the economy" (also called "business savings") means the internal savings (retained earnings) of enterprises in the social sector of employment, as opposed to other recognised "sectors" like households and the State.

² Stanje i identifikacija problema u sferi akumulativne i reproduktivne sposobnosti privredi (Beograd, 1984).

Table 15. Indicators of internal savings

Period	Net savings as % of income	Net savings as % of fixed assets	Gross savings as % of fixed assets
1966-70	16.9	6.7	10.9
1971-75	19.1	6.6	10.2
1976-80	12.5	2.3	7.3
1981-83	17.0	4.8	8.6

Source: Study cited in footnote 2 on page .. .

A curious phenomenon which emerges from the table is the upturn of all three savings indicators in the early 1980s, which in other respects was a period of grave difficulty for the economy. It is well known that declining and occasionally negative rates of income growth are normally not associated with either an absolute or a relative increase in savings. A closer examination shows that in this connection the unexpected phenomenon can be reduced to a statistical artifact. Accumulation and income are inflated and thus overestimated by inventory revaluation effect:¹ this brings a fictitious component into both aggregates. A study recently produced in the Belgrade Institute of Economic Studies² gave estimates of the inventory revaluation effect. It turned out that in 1979-83, this effect amounted to 1,649 billion dinars. Total internal accumulation ("business savings") in the same period amounted to 1,701 billion, so that close to 97 per cent of internal accumulation was fictitious. Adjustment for this statistical aberration - which, of course, becomes the more pronounced the higher the rate of inflation - reveals that the savings potential is gradually dwindling to nil. In practice firms are financing part of their fixed assets investments

¹ The inventory effect is a phenomenon well known to inflationary economics. As stock is revalued (at higher prices) after the lapse of a year, a large difference appears to exist between consecutive stock levels, apart from any change in real volume. These nominal inventory increases are treated as investments - a procedure which very much inflates both the investment level of the enterprise and its internal savings.

² Lj. Madzar and Z. Popov (eds.): Uslovi, mogucnosti i pretpostavke razvoja jugoslovenske privredi za period 1986-90 (Beograd, Institute ekonomskih nauka, 1985), pp. 102-111.

out of their own savings, but their inflated working capital has consequently to be financed out of increasing bank credits - which clearly amounts to the same thing.

Insufficient savings generated in the economy make it more difficult to expand capacities and thus to bring about an increase in employment. Investment has to be financed out of the savings of other, non-economic sectors, including households and the rest of the world. In both cases debt servicing exhausts the economy's financial resources and, in the long run, restricts its expansion. Much external financing of investment in the economy is believed to be inflationary and to create serious disruptions. Expansion of capacity and of employment is therefore secured at unnecessarily high costs, which undermine the long-run prospects of eliminating unemployment.

2.2.4 Immobility of available resources

There are serious official constraints which practically eliminate the mobility of resources available for investment. Some derive from local and republican governments' attempts to maximise their share of concessionary resources from some common pool and, at the same time, to prevent their own resources from going elsewhere. The result is that resources tend to stay in the territories in which they have been formed. Similar reasons operate at the level of the enterprise, whose investment in anything but its own expansion is unprofitable because the investor, in addition to not earning an adequate return, runs the risk of losing his stake. Property income is unacceptable on grounds of principle, and the few pragmatic, makeshift arrangements by which the principle is circumvented do not suffice to induce firms to invest in plants operated by other collectives. This defect is aggravated by another difficulty. The lack of a capital market with its versatile procedures makes it impossible to invest temporarily free resources on a short-run basis and to earn a market rate of return upon them. That situation forces organisations to invest such resources in physical assets of their own - and to do so quickly, long before the resources reach a respectable amount, for otherwise they will melt away because of inflation. The consequence is much miniature, atomised investment which is bound to be inefficient.

On the other hand, in order to be able to make certain investments, enterprises try to supplement their modest means by bank credits. This adds to the demand for credits, which in any case is extremely high.

The problem of expansion is also not satisfactorily solved. Existing firms have no motivation to set up new plants of which they will eventually lose control: once the newly established plant is manned, the collective of its personnel acquires full self-management rights and the investor loses earnings, principal and control. External finance remains as a possible source of industrial mobility, but this important prerequisite for efficient investment is drawn from resources generated outside the official sector of the economy.

Inability to invest in other establishments forces firms to expand the range of their own products and to promote vertical integration. The advantages of the division of labour are thereby lost and the firms enter areas for which they do not have the requisite know-how; reduction of efficiency is the likely result.

Because of the insufficient mobility of funds available for investment, the existing structure tends to reproduce itself without regard to changing external circumstances. The process of adjustment becomes slower, more costly, and less efficient. The implications regarding employment creation are straightforward: a partially adjusted economy loses some of its growth momentum, its savings potential tends to decline, its investment is unfavourably affected and its ability to generate jobs is reduced. Lack of mobility also means that some investment opportunities will remain unexploited, and accordingly some high-quality projects, which would have provided new employment openings, will not come into existence.

The problems of the immobility of investable resources are made still more nearly insoluble by segmented markets and regional or even local autarchy. These are discussed in some detail below (cf. section 2.4).

2.3 Slow response of economic agents

The slow response of those who make decisions is a separate problem, distinct from that of the faulty market and "non-market" signals discussed above. The reasons why agents react slowly to external stimuli are also of an

institutional nature. They are twofold. On the one hand, the processes of collective decision-making are naturally involved and roundabout, and the slow pace is an objective fact. On the other hand, there may be insufficient incentive to react quickly to changes in parameters.

2.3.1 Organisational causes of insufficient response

There are too many people who have some say in business decisions, although they may have little real interest in the question at issue and, in particular, in accepting the underlying risk. A decision sometimes has to go through a series of bodies each of which is entitled to discuss and to approve it. Misunderstanding, obstruction and other complications have to be overcome by patient, persistent and tactful action - which takes time.

Enterprises consist of relatively small, economically independent units; some major actions require the co-operation of several such units; here again the long process of interest harmonisation is difficult to avoid. Every adjustment has its costs, of which the time taken in reaching the decision is real component.

Moreover, the frequent changes of parameters, caused by steadily increasing inflation, makes it undesirable, if not impossible, to adjust promptly in any case; and since the changes often do not reflect the effective scarcity of resources, outside pressures develop that induce economic agents to accept decisions which are against their own immediate interests and which - guided by those interests and the current parameters - they would never take. In such a situation, it would be unrealistic to expect policy-makers to be able to induce big and rapid changes by manipulating the allocative parameters.

A fundamental economic unit in Yugoslavia, the Basic Organisation of Associated Labour (BOAL), is defined by law as competent for a very restricted range of output. This rule, in combination with insufficient ability and lack of motivation to create new firms, makes for a very rigid and inflexible mechanism of adjustment to changing external circumstances. Illiquidity, soft budget constraint and lack of financial discipline, as well as the inappropriate institutionalisation of risk (all described below in section

2.5), are among wider organisational causes of the slow responses of economic agents to market signals.

2.3.2 Implications of employment constraint

A distinctive feature of the Yugoslav system is the well-known "no lay-off" constraint: save in some exceptional circumstances (such as imprisonment for more than six months), a worker, once employed, acquires life-long job security. In the case of a major technical innovation or a change in demand, leading to the reduction of the number employed, the organisation is (perhaps with assistance from the local authority) obliged to find a job for every newly redundant worker. If the need for labour is reduced as a consequence of the change in business conditions, the normal outcome will be that the number of personnel remains the same and the diminished amount of work is shared among them; so individuals will, on average, work less. It is obvious that the "no lay-off" constraint introduces much additional rigidity into the system. Varying the number of workers is a useful way of adjusting to changing conditions in the short run, and of course even more so in the long run. Inability to reduce the workforce as demand conditions require, coupled with credit financing of unsaleable output, creates a rigidity which is bound to have far-reaching effects on the pace and pattern of structural change. The lack of a timely response to external conditions results in the accumulation of various imbalances and systematically reduces the system's overall efficiency.

Rigidity affects to some extent the behaviour of all macro-economic aggregates. Its high level in the sphere of employment can be demonstrated in various ways: the simplest and most convincing is probably comparison of the growth rates of the gross material product (GMP) and of employment, both in the social sector. It will be convenient to consider the period encompassing both the most recent years of exceptionally slow growth and some of the preceding years when growth rates were incomparably higher. The relevant information is given in the following table.

Table 16. Annual growth rates of GMP and employment (in per cent)

	1976	1977	1978	1979	1980	1981	1982	1983	1984
GMP		3.8	8.6	9.1	7.3	2.5	1.3	-0.2	-1.3
2.6									
Employment	3.5	4.5	4.6	4.3	3.3	2.9	2.3	1.9	2.1
Elasticity ¹	0.9	0.5	0.6	0.6	1.3	2.2	-	-	0.8

¹ Explained in the paragraph below.

Source. SBY 1984, pp. 81, 83; for 1984, the source is Indeks (Beograd, Savezni zavod za statistiku), 1985, No. 6, p.4.

From the standpoint of employment rigidity, the most relevant fact is the striking difference in variability between the two series of growth rates: whereas that of the GMP shows high variability, reflecting many growth constraints and changing business conditions, the rate of growth of employment is, at least in comparison with the GMP, remarkably stable. Relatively high rates of employment growth were achieved even in years when the GMP virtually came to a standstill. Of course such a divergence caused erratic behaviour of the coefficients of elasticity of employment in its relation to output. Naturally the coefficients took on particularly high values in the years of slow growth of the GMP and converted the rates of productivity growth into negative values. In 1982 and 1983 the coefficients would have been negative and provided further corroboration that employment growth is independent of the GMP.

To sum up, two main conclusions may be drawn: (i) the system is not yet quite able to generate the right kind of employment parameters; and (ii) for a number of institutional reasons, economic agents do not react to those parameters in a desirable way. Slow reaction seems to be a structural feature of both the planning and the market system. Although this slowness to some extent reduces the system's economic efficiency, in the domain of employment and in a short-run context it may have some desirable effects: by not optimising in the strict sense and in particular by not economising fully on the labour force, it generates less unemployment than would be required for

strictly economic reasons and thus avoids potentially dangerous shocks in the wider social system. These short-run gains are, however, obtained at the price of considerable long-run disadvantages.

It follows that there is a good deal of incongruence between, on the one hand, a market-oriented short-run stabilisation programme (which the IMF certainly is, as also - to a smaller extent but still significantly - is the Yugoslav Long-Run Programme of Economic Stabilisation) and, on the other hand, the present-day Yugoslav economy, which is only partly regulated by the market. Rectifying factor and product prices plays an important if not a decisive role in both kinds of programme. But for such a strategy to be successful the economy should be made much more responsive to market signals.

It may therefore be concluded that both programmes can be implemented in the Yugoslav economy at relatively high costs: this is precisely why there is a need for far-reaching institutional changes which are heavily emphasised and fully elaborated in the Yugoslav programme. They will make the economy more flexible for purposes of structural adjustment and greatly reduce present rigidities and resistances when it is necessary with unpredictable shifts in the external environment.

2.4 Segmented and monopolised markets:

Impact of regional autarchy

The failure of the market to determine factor prices and distortion of product prices are not the only obstacles to putting a programme of market-oriented adjustment into effect. There are many causes of the unsatisfactory functioning of what is called the "unified domestic market". This is conceived by the Constitution as the environment in which the independent labour-managed firms earn and spend their income in fair competition. According to article 252 of the Constitution, the necessary components and conditions of functioning of the unified market are free flow of labour, collectively-owned capital, goods and services across the country. To secure that result, the same constitutional article requires the unity (guaranteed by federal law) of the money and monetary system, and of the foreign exchange and customs tariff system, as well as planned management of the main elements of the collective economy. Much harmonisation of fiscal systems is required, together with joint economic policy in all the

above-mentioned areas. All authorities (local, provincial, republican and federal) are made responsible, within their respective powers and functions, for the smooth functioning of the unified domestic market.

The obstacles to mobility of labour within Yugoslavia have already been explained. Since labour mobility is closely related to inter-regional migration, figures concerning change of residence between the two censuses (1971 and 1981) can be used as an illustration. In that period, change of residence ranged from 4.03 per cent of the population of Macedonia to only 0.65 per cent of that of the Vojvodina. The contribution of this migration to the increase or decrease of the population was negligible, for the percentage increases were only 0.06 in the Vojvodina, 0.29 in Serbia and 0.07 in Croatia; there was a decrease of 0.4 per cent in Kosovo.

The same kind of situation applies to the mobility of collective capital. Funds available for investment are mostly reinvested in the same enterprise and additional loans and credits are usually raised from the local or republic bank. Pooling of capital for investment in several enterprises amounted in 1977 to only 3.3 per cent of total investment finance; the corresponding figure was 5.4 per cent in 1979 and 9.8 per cent in 1981.¹ However, the major part of such ventures occurs within local communities or republics and very little across inter-regional borders.

The flow of goods between regions is also slackening (see table 17).

With the slight exception of Macedonia, regional autarchy is increasing. In normal circumstances local imbalances in the market of particular goods would be expected to lead to bigger flows between regions. However, that is not the case. Since there are significant overall imbalances (measured by the ratio of supply to demand) on the market for intermediate goods (0.68 in 1981), investment goods (0.92) and consumer goods (1.33),² goods produced in a given territory are only locally distributed, even if required elsewhere, while local markets are protected against surplus goods from other regions. This practice has usually been based on the abuse of the prerogatives of local or regional authorities in price-cutting and fiscal policy.

¹ SZS: Razvoj Jugoslavike 1947-81 (Beograd, 1982), p. 43.

² Ibid., p. 88.

Table 17. Share of locally produced goods in total turnover of regions (in per cent)

	1970	1974	1978	1980
Yugoslavia - average	59.9	63.6	68.1	68.6
Bosnia and Herzegovina	63.2	68.9	69.4	70.9
Montenegro	48.7	55.5	67.8	65.5
Croatia	62.8	64.5	71.1	71.9
Macedonia	66.5	68.3	64.6	66.4
Slovenia	57.8	63.3	64.5	64.3
Serbia (total)	66.1	70.6	77.4	77.5
Serbia proper	60.0	62.5	59.2	69.7
Vojvodina	50.0	56.2	65.3	64.4
Kosovo	56.6	55.8	62.9	65.6

Source. The unified Yugoslav market (Research Centre, Faculty of Economics, University of Belgrade, 1984), p. 92.

Local authorities usually allowed higher prices to be charged for goods typical of the production pattern of the region, thus attempting to increase the income of their own firms. Protection of the latter from competition was rather informal, secured mostly by administrative measures limiting access to the local market. On the other hand, local authorities used their prerogatives to levy higher taxes on certain goods, mostly supplied from outside their regions. Here it must be noted that there is no central tax system in Yugoslavia. Fiscal systems are defined by laws of the republics and autonomous provinces.

All these defects in the functioning of the unified market were well known when the stabilisation programme was framed. The institutional obstacles were also identified and appropriate changes have been proposed.

Scarce resources, even if they were evaluated at unreal prices, could not be rationally allocated under a planning system which did not have due regard for national development priorities and, among other things, encouraged regional autarchy. In August 1985 a new law on the planning system was adopted which makes the planning process clearer and more efficient by

introducing overall national plans for some activities (big systems like energy, transportation, etc.) and by providing a more efficient selection of priorities in other sectors, supplemented by a sound and uniform set of criteria for evaluating investments.

The previous foreign exchange and trade system, which still operates to some extent, had produced a dual economy in Yugoslavia. A whole parallel system of currency and payments developed on the basis of firms' foreign exchange accounts and their right to use foreign exchange which they had earned. In most goods of which there was a shortage, normal supplies from domestic sources could only be secured against payment in foreign exchange, which thus became scarcer. Regionalisation of foreign exchange flow within the country led to the emergence of different rates for the dinar in different republics and provinces. So the unity of the national currency and monetary system was eroded. Moreover, divergent prices for scarce foreign exchange caused its imperfect allocation. A bill on foreign exchange has been in the parliamentary machinery since September 1985. The proposed new law seems well calculated to make good the shortcomings of this part of the institutional and policy framework.

Entirely regionalised business and investment banks only contributed to further deterioration of the resource allocation machinery. Almost all criteria for rational investment have usually been rejected because local interests formally or informally controlled banks.

The readiness of such banks to break the rules of sound business and discipline contributed a great deal to the soft budget constraint under which the economy was operating. A draft law on banks is also before the legislature: its aim is to rehabilitate the banks as professional institutions responsible for investment evaluation and for their own liquidity.

The functioning of the market is incompatible with the degree of price control or, more precisely, of administrative price formation which Yugoslavia had until January 1985; it is especially inconsistent with regional prerogatives regarding prices. Since January 1985 price formation has not been regulated by law and prices have been to a great extent liberalised, price controls being reserved for specific sectors or situations. A good deal of the present inflation is due to the painful process of adjusting the relative prices of products.

2.5 Virtual absence of bankruptcy; lack of financial discipline; the problem of liquidity

All the phenomena included under the above title could have been foreseen in the Yugoslav economy, in the light of theoretical considerations, as quotations from an abstract theoretical work will illustrate:

A number of workers will be idle in the workshop if there is no material to process or a part is missing for the installation or there is a power cut. Or, on the contrary, there may be material, but it is not processed because the worker in charge of the task has not come to work.

The financial situation of the firm does not restrict its action. Money has only a passive role. Let it cost what it may ... The main thing is to acquire material and capacity, and money for it will be found somehow ... Once we have a contractor, we shall not stop the investment just because we have no money ... If there is a loss, the state budget will take it over.

The State is a universal insurance company which compensates the damaged firm sooner or later for every loss. The paternalistic State automatically guarantees the survival of the firm ... There are various means of doing this. Subsidies, individual exemption from the payment of taxes or other charges, their full or partial remission or postponement; allowance on a centrally fixed selling price, or toleration of a hidden price increase; credit granted on soft conditions, prolongation of the proper repayment periods, etc.

The above pattern of behaviour (just replace "firm" by "State") could be used as a realistic description of the behaviour of a Yugoslav firm. But it comes from a different source. Let us reveal the secret - all the quotations are taken from the work of J. Kornai, where he explains the concept of the soft budget constraint and its micro- and macro-economic consequences.¹

Until recently, there was a virtual absence of bankruptcy among Yugoslav firms. Thanks to soft budget constraint, they produced losses, made inferior goods for inventory, hoarded stocks of raw material and intermediate goods, did not pay their bills (inter-enterprise credit!) and invested without appropriate sources of finance.

¹ J. Kornai: Resource-constrained versus demand-constrained systems, Seminar paper No. 113 (Stockholm, Institute for International Economic Studies, 1978), pp. 7, 13, 111.

Because of such a waste of resources, the available public capital was grossly misused. Also, the problem of enterprise ramification was not and still is not solved. The number of new establishments is generally low, with a correspondingly small influence on economic activity. Their share in total industrial production amounted to 4.4 per cent in 1978, 1.8 per cent in 1981 and only 1.4 per cent in 1982. Workers in new establishments increased the rate of growth of employment in industry by 0.2 per cent in 1978 and 0.3 per cent in 1982.¹

Losses in business enterprises are often large, though with wide fluctuations. The share of losses in enterprise income amounted to 1.9 per cent in 1981.² (This should be understood as the sum total of all reported losses in the economy, related to total income in per cent.) Industry and transportation (mostly railway) used to have the heaviest losses. The total amount of losses increased by 40 per cent in 1982 and by 80 per cent in 1983.³ In the first half of 1985 some 3,070 out of 29,000 firms reported losses, the total amount of which was 195 billion dinars,⁴ i.e. twice as much as in the first half of the previous year.

There are no statistics on irregular inter-enterprise credits, which are a plain violation of monetary discipline. However, their total is quite large, as evidenced by the fact that, during the 1970s, several clearing operations were launched to reduce their size. According to OECD estimates, inter-enterprise credits increased in 1983 by some 62 per cent, and bank credits by 36 per cent.⁵

Recently, business losses, uncovered investments and unpaid bills (inter-enterprise credits) appear to be covered by price increases or grants from local or regional authorities. The real imbalances remain unchanged and they inevitably reappear in nominal terms, to be magnified by the rate of

¹ SZS: SBY, 1984, p. 273.

² SZS: Razvoj Jugoslavije, op. cit., p. 46.

³ The unified Yugoslav market, op. cit., p. 50.

⁴ Politika, 5 September 1985, p. 8.

⁵ Yugoslavia, OECD, op. cit., p. 24.

inflation. Such internal financial deficits accumulate in course of time, just as balance-of-payments deficits accumulate and so foreign indebtedness increases. According to some estimates, the sum total of all accumulated (uncovered) domestic financial deficits is of the same order of magnitude as the foreign debt. Between those two imbalances there is a direct link. The inevitable depreciation of the dinar makes for a sharp increase in the dinar value of foreign exchange liabilities. Until recently no allowance for this has been made in the financial accounts of enterprises and banks. The bulk of such liabilities was therefore without cover in the funds of enterprises and banks, and so turned into direct losses at the date of their maturity.

All such domestic financial imbalances are basically the consequence of soft budget constraint. As the problems have long been known, there have been many attempts to deal with them. The present economic reform in the framework of the stabilisation programme recognises the enormous size of those accumulated domestic deficits and the fact that mere hardening of the budget constraint would not solve the problem. The number of bankruptcies would be enormous and involve corresponding losses in production and employment. Measures to improve financial discipline are essential, but the position of the enterprises should be relieved by appropriate measures of economic policy. The authorities are indeed prepared to effect a redistribution of income in favour of the productive sectors at the expense of the oversized social infrastructure, and perhaps to reduce taxes and contributions.

Since elimination of budget deficits is also a must, budget expenditure in real terms will be obliged to fall. The existing domestic debt of enterprises should be reprogrammed and the term of some short-term credit obligations should be extended. The projected abolition of foreign exchange accounts of enterprises will not reduce the amount of their external liabilities, but it will certainly eliminate their possibility of accumulating such obligations without covering them out of income. Since all foreign exchange will be promptly sold (and purchased) on the market at an equilibrium price, all foreign exchange gains by some enterprises will be matched by losses on the part of others.

Elements of a balanced package of institutional reforms and policy measures aimed to prepare firms for the introduction of a hard budget constraint were made effective in 1984. The accuracy of the accounting of

revenue and income has been improved as periodical revaluation of fixed assets and more appropriate depreciation rates have become compulsory; enterprises are made responsible for building up their working capital; measures to penalise firms making losses have been strengthened. In 1986 the possibility of covering losses out of the joint reserve funds of enterprises of a given region will be entirely abolished. Firms with losses will be either bailed out by other firms having a sound economic interest in doing so, or they will have to go bankrupt.

III. STRUCTURAL ADJUSTMENT STRATEGY: PROGRAMMES
AND POLICIES

3.1 The IMF and the Yugoslav stabilisation
programmes: A comparative survey

Yugoslavia, as one of the founders of the International Monetary Fund (IMF), has much experience of co-operation and negotiation with that institution. Attempts to reform the country's economic or foreign exchange system (in 1961, 1965 and later) have been made with varying degrees of reliance on resources available through the Fund. Until the 1980s, the IMF's conditionality requirements had usually been met by presenting (in the form of a letter of intent) the main goals and targets of the current medium-term development plan and by agreement upon indicators of performance which have anyway been used in the yearly resolutions on economic policy. So, the degree of agreement on targets and policy measures was high, and there were no hard feelings about the IMF in Yugoslav opinion.

Since the beginning of the 1980s, Yugoslavia has been going through the process of defining and applying one of its most comprehensive and difficult economic reform and adjustment policies. It was only natural to expect that stabilisation of the balance of payments and adjustment in the external sector would be backed by the IMF. That was indeed the case. However, the severity of the problems led Yugoslav professional economists and public authorities to prepare a programme of reforms and adjustment which stretched far beyond the conventional framework of IMF stabilisation programmes. Differences in the scope and duration of the Yugoslav and IMF stabilisation plans made co-operation and negotiations more complicated than before.

The IMF type of stabilisation measures conform with the targets set in the letter of intent concerning the 1981 standby arrangement (with annexes for 1982 and 1983), the letter of intent for 1984 and the memorandum on economic policy for 1985.

The basic policy document of the Yugoslav Stabilisation Programme was ready by the end of 1981. It had then already become clear that the Yugoslav programme was more a plan of economic reform and structural adjustment than a

narrowly defined short-term IMF type of stabilisation programme. Short-run balance-of-payments stabilisation was envisaged in the very first stage of the Yugoslav programme. But the latter has been called "long-run" precisely because it intended to achieve much more than short-run stabilisation; it aimed at a comprehensive reform of the economic system and a growth strategy geared to the needs of structural adjustment. For that purpose Yugoslavia obtained in 1983 a structural adjustment loan (SAL) from the World Bank.

IMF programmes have a duration of one to three years (this last in the case of extended arrangements only). The first stage of the Yugoslav programme (including balance-of-payments stabilisation and economic reform) was intended to be completed by 1984. Its second stage consists basically of the design and intended implementation of an economic development plan for 1986-90. The third stage is covered by a long-run development programme for the period 1990-2000.

3.1.1 Objectives and targets

The basic objectives of IMF-type stabilisation programmes are well known. The standby arrangements negotiated with Yugoslavia have not been significantly different from the standard arrangements mentioned and indeed abundantly analysed in the economic literature.¹ In that sense, Yugoslavia has been neither favoured nor has there been discrimination against it. Changes in the definition of some targets or performance indicators, or their number, in successive Yugoslav standby arrangements reflect mainly a general trend in IMF policies, but also the changing conditions in the Yugoslav economy.

The terms of the SAL agreement with the World Bank are the standard conditions. Since the IMF standby arrangement was a precondition of the SAL, their goals and targets might as well be reviewed together.

¹ J. Williamson (ed.): IMF confidentiality (Washington, D.C., Institute for International Economics, 1983); T. Killick (ed.): The quest for economic stabilisation: The IMF and the third world (London, Heinemann Educational Books, 1984); M. Khan and M. Knight: "Stabilization programs in developing countries: A formal framework", in IMF Staff Papers, Mar. 1981, Vol. 28; P.M. Landell-Mills: "Structural adjustment lending, early experience", in Finance and Development, Dec. 1981.

IMF-backed programmes have as main objectives: balance-of-payments stabilisation, normal debt servicing, controlling and moderating inflation, and alignment of the relative price structure to improve the efficiency of resource allocation. SAL loans are intended to assist structural adjustment in order to reach medium-term balance-of-payments equilibrium, to help in covering the transitional costs of adjustment in industry and agriculture, and to act as a catalyst for the engagement of other sources of structural adjustment finance.

Unfortunately greater detail on how these objectives are translated into more specific operational targets cannot be disclosed here, as all documents agreed between the Yugoslav Government and the IMF are classified "secret". That is also the case as regards the periodical reviews of fulfilment of the targets and concomitant performance indicators. However, the following should be taken into account.

All the above objectives, and some others, have been those of Yugoslav economic reform and stabilisation programmes since 1965, and literally all are specified in the 1981-83 stabilisation programme. The main objective, of course, is to improve the resource allocation mechanisms by reforming the relevant parts of the economic system and by structural adjustment (changes in development priorities and in the pattern of production and foreign trade).¹

The chief difference between the IMF-type stabilisation package and the Yugoslav Stabilisation Programme is that the latter sets explicit objectives regarding employment and social development, while the former does not. The other main difference comes out in the envisaged speed of adjustment. Even with respect to the same objectives and targets (realignment of relative prices, setting of proper interest and foreign exchange rates), the two programmes planned different speeds of implementation. The Yugoslav programme regarded the above as medium-term targets while the IMF-type policies called for speedier adjustment.

As already stated, the Yugoslav Stabilisation Programme includes goals and targets respecting short-run stabilisation of balance of payments, medium-term

¹ For a full description, see: Stabilisation programme, op. cit., Vol. IV, concluding part.

structural adjustment and long-term strategies of economic and social development. All goals and targets negotiated with the IMF or presented to the World Bank are included in the set of objectives of current economic and medium- and long-term development policy. The programme consists of the annual plans (resolutions by the Federal Parliament on economic policies), five-year plans and long-term development programmes. A comparative survey of the targets of short-, medium- and long-term economic and development policy will be found below. The targets of employment policy will be explained and analysed in section IV.

Table 18. Targets of stabilisation and development policy
(rates of growth in real terms, per cent)

	1981-85 ¹	1985-86	1985-90	1990-2000
Net material product:				
Economy - total	1.1	3:0	4.0	4.5
Social sector	0.9	n.a.	4.0	4.5
Private sector	1.9	n.a.	4.0	4.5
Manufacturing industry	2.9	3.0	4.5	5.0
Agriculture	2.6	8.0	3.2	3.2
Exports of goods and services	0.6	5.0	5.7	5.1
Imports of goods and services	-6.2	4.8	5.3	5.0
Real personal incomes	-5.5	0.5	1.8	2.4
Labour productivity	-1.5	1.0	2.8	2.6
Personal consumption	-0.7	n.a.	4.0	4.5
Gross investments in fixed assets	-6.6	2.0	3.6	5.0

¹ Estimate for 1985.

n.a. = not available.

Sources. Draft Resolution on Economic Policies for 1986, Draft Five-Year Plan, Long-term Social Development Plan of Yugoslavia for the Period 1986-2000.

The above indicators reveal that the immediate task of stabilisation policy for 1986 is to recover some growth while maintaining the balance-of-payments surplus and keeping personal consumption and real wages within the limits of productivity growth. For that purpose restrictive monetary policy, reinforced by continued measures to improve financial discipline, will be continued.

The second stage of the stabilisation programme, the Five-Year Plan 1986-90, is aimed at maintaining growth and even accelerating it so as to regain some of the momentum lost in 1981-85. This stage should be devoted to structural adjustment along the lines described more extensively in section IV. Finally, if the target indicator levels for the period after 1990 were reached, it could be considered that both stabilisation and structural adjustment had been accomplished.

Implicit in the policies indicated here is the assumption that stringent monetary and budget policies will be continued in order to rehabilitate the dinar and prepare it for convertibility. A modestly increasing balance-of-payments surplus will be maintained throughout the period: this will allow the debt service ratio to be reduced to 25 per cent, or less, by 1990 and will make it possible later to diminish the amount of foreign indebtedness.

3.1.2 Methods and policies

In accordance with the monetary approach to balance-of-payments adjustment, credit ceilings are one of the most important items in IMF stabilisation packages. They are intended to prevent domestic credit from exceeding the demand for money and designed so as to restrict aggregate demand. The last arrangement with the IMF puts ceilings on the net domestic assets of the Yugoslav banks. The setting of such ceilings also implies balance-of-payments and foreign borrowing constraints, as well as liquidity targets.

The adjustment of nominal interest rates so that they approach real positive values is an important method used in both the IMF and the Yugoslav stabilisation programmes. A specific algorithm for indexing the nominal interest rate to the rate of inflation has been composed. The algorithm was replaced in 1985 by the use of a moving average of past and expected rates of inflation.

Similarly, the nominal exchange rate is indexed to the rate of inflation in order either to maintain the effective real exchange rate of the dinar relative to a "basket" of convertible currencies, or even to achieve some real depreciation, aimed at improving the competitive capacity of exports as regards prices.

Alignment of relative product prices had always been wanted. The 1985 memorandum to the IMF and the corresponding resolution on economic policies made specific commitments to improving prices in the energy and some other sectors.

Improvements in the foreign trade incentives system and the foreign exchange allocation mechanism were constantly under way as additional methods of adjusting the balance of payments and necessary steps towards better resource allocation. Provision for restructuring the incentives system is also made in the SAL agreement with the World Bank. To improve the efficiency of investment, the parties have agreed on a set of investment evaluation criteria. To assist structural adjustment, sectoral policies have been formulated, including research projects aimed at revealing comparative advantages and the optimum structure of protection.

Most of these methods and policies would have been applied anyway, since they are contained also in the Yugoslav Stabilisation Programme. The realignment of relative factor prices (implying real positive interest rates and relief of part of the fiscal burden on wages and salaries) and also the realignment of the effective foreign exchange rate were already agreed upon in the first, basic document of the stabilisation programme. The reform of the foreign exchange system has been considered highly important with a view to rehabilitating the dinar in all its functions as the national currency and to introducing a genuine foreign exchange market. The programme also contains many measures aimed at improving financial discipline and hardening the traditional soft budget under which Yugoslav firms were able to operate. Furthermore, the programme has a chapter on structural adjustment in production and foreign trade, which served as a basis for preparation of the 1986-90 development plan and of structural policies until the year 2000.

3.1.3 Implications with respect to employment

If there are employment targets in the Yugoslav letters of intent attached to IMF standby arrangements, they are most certainly there because the Yugoslav side wished to call attention to an important constraint imposed even on short-run stabilisation policies. Increasing employment and reducing unemployment are among the highly placed objectives of Yugoslav society.

The IMF packages expect better employment prospects only as an indirect effect, after realignment of the relative prices of factors and goods, thanks to a general improvement of the resource allocation mechanism. Meanwhile, the IMF package is more likely to increase unemployment than to generate new jobs. This is simple arithmetic: because of the no-firing rule, any policy leading to a production slowdown increases unit costs and reduces productivity. The restriction of aggregate demand by means of tight monetary policies and at least partial balance-of-payments stabilisation by means of import restrictions are no way to increase employment in an economy where overemployment within firms already exists and causes lower labour productivity. Since the employed labour force does not react (for institutional reasons) to changes in demand and output, pressure on prices increases, labour productivity declines and decreasing competitive capacity as regards exports makes for an inadequate balance-of-payments performance. All these phenomena could well be considered as results of restrictive policies, causing stagnation of demand and output.

The Yugoslav Stabilisation Programme sets its targets subject to the employment constraint. The goals and targets of stabilisation have to be achieved without increasing unemployment; indeed, they are expected to be reached together with a simultaneous increase in employment. There is a special chapter of the programme dealing with employment policies. A sincere effort has been made to design such methods of creating such new employment as will not reduce labour productivity and the overall efficiency of firms. The main role in that respect is allotted to employment policies based on structural adjustment along the lines of comparative advantage. The methods of Yugoslav employment policy will be dealt with in more detail in Chapter IV of the present study.

3.2 Ways of approaching major imbalances:

Specific policy issues

The IMF-World Bank type of policies and the Yugoslav Stabilisation Programme have their similarities and differences as regards ways of dealing with the country's major imbalances. It seems necessary in this context to offer a survey of policies of demand management and structural change (including changes in policy mix and choice of instruments) and of the role of planning and market in the resource allocation mechanism.

3.2.1 Management of total demand

Compared to the usual credit ceilings and limits on budget expenditure, the Yugoslav Stabilisation Programme seems to have a more complex task and a broader range of instruments for the management of aggregate demand. The Anti-Inflation Programme¹ is a good source of information on demand management policies. Four main methods are envisaged by this programme.

The first is to increase the operational efficiency of firms on the basis of appropriate relative factor and product prices, as discussed in section 4. Policy measures to harden firms' budget constraints are one way of approaching the efficiency issue. The pressure of market forces and of economic sanctions for wrong business decisions, leading to losses, is also to be used. This will be achieved, inter alia, by preventing a firm from covering its losses out of the local community's reserve fund.

The second method seeks to slow down investment expenditure. By application of a system of criteria for investment project evaluation, less profitable projects will be cut. A reduction in the share of investment in the GMP has been planned. Investment in fixed assets should have its share in the GMP lowered from the previous 35 per cent to about 25 per cent. Accompanying restrictions of budget expenditure should lower the share of public outlay in the GMP.

The third method of anti-inflation policy is the lowering of production costs. Measures of fiscal relaxation were envisaged to induce it. Price control to a higher degree has been accepted for the initial stage of the programme, but its role is expected to diminish later.

Among the policy measures used to implement the methods listed above, monetary policy was made responsible for controlling and restricting the growth of money supply and the expansion of credit. A radical restriction of the transformation of short-run sources into investment finance was planned. Indeed, firms have been subjected to regulations requiring each one to create an appropriate working capital fund of its own.

¹ See: Stabilisation Programme, op. cit., Vol. I, pp. 67-89.

The lowering of social overhead costs was to be achieved by the introduction of personal participation of citizens in the cost of services rendered and by changing the sources of finance of social overhead activities. A more rational way of financing such outlays is expected to be achieved by greater recourse to the income taxes paid by enterprises and progressive taxes on individual income, and to a corresponding reduction of excise and turnover taxes.

Investment policy is expected to be based on sound criteria for project evaluation. Inflationary finance of investment is ruled out and a higher degree of self-finance on the part of enterprises is required.

For the period of price control, specific criteria have been agreed on. They are intended to help in alleviating external and internal price disparities. In the process of adjusting relative prices, export and import prices will be used as important criteria and the economic position of the various sectors will be ascertained by comparing actual levels of income to levels which would put them in equilibrium.

Implementation of the policy of promptly adjusting effective exchange rates to relative inflation levels and the gradual achievement of real positive interest rates was envisaged to supplement demand management policies.

A general hardening of the budget constraint on firms was to be achieved by restricting the possibility they previously enjoyed of recovering their losses. In order to be bailed out, firms which have incurred losses are now obliged to reduce personal incomes, reconsider the performance and responsibility of their management, and change technologies and production programmes.

3.2.2 Policies of structural change

There are two intertwined aspects of policies of structural change. First, there are obvious bottlenecks within the production structure, of such size and nature that they cannot be dealt with by way of foreign trade: strategies for growth until 1990 and 2000 have therefore set explicit targets to alleviate structural deficiencies in energy consumption and production, in the production of some raw materials and of food. Second, adjustments in the pattern of production are required by the need to improve performance as

regards exports and balance of payments. These efforts have been assisted by the establishment of an Export Development Fund with a structural adjustment loan from the World Bank.

There is also a third area of development policy relevant to structural change - the policy of national priorities in the development of science and technology. The intention is to restructure industry and provide it with energy and raw materials. Diversification is expected in the production of electrical and non-electrical machinery and equipment, electronics, shipbuilding and the chemical industry. In agriculture, the aims are to attain high yields in grain production, a significant rise in primary commodities for further processing, and more extensive and efficient meat production.

Structural adjustment aimed at correcting the balance of payments and "rational" employment (with comparative advantage as the criterion) are discussed in detail in section IV.

National science and technology policies will help structural adjustment by concentrating research and development efforts on the optimal development of energy sources and on economy in energy consumption. The development of raw materials production will be made possible by the further prospecting of mineral reserves and the introduction of more efficient methods for their utilisation (ferrous and non-ferrous metallurgy, non-metallic minerals, basic chemicals). Selection of seeds and irrigation technologies will help agriculture to achieve high productivity. Production units in most industries will be equipped with numerically controlled machines and flexible technologies. Research will be concentrated on the use of electronics, computers and automated production processes and on the development of new materials, especially chemicals.

Structural adjustment and higher efficiency of the big infrastructural systems (electric power, railways, telecommunications, water resource development) also will be backed by the selection of appropriate research and development priorities.¹

¹ Stabilisation Programme, op. cit., Vol. III, pp. 58-59.

3.2.3 Role of planning and the market

Both the IMF-World Bank and the official Yugoslav Stabilisation Programmes are basically market-oriented - most certainly as regards the IMF type of short-run packages for balance-of-payments stabilisation. Since structural adjustment programmes have a medium-term and the Yugoslav growth strategy an even longer perspective, planning is bound to play an important role in the whole economic reform and structural adjustment venture in Yugoslavia.

Although Yugoslavia started its post-war development as a centrally planned economy, it soon recognised the inefficiency or, to be more precise, the impossibility of total planning. The economy is a large system with many variables whose movements cannot be precisely foreseen. At the existing level of knowledge and of computerisation, there is no possibility of total simulation of all behavioural relations between the subjects of the system (people as workers and consumers, households, entrepreneurs, local, state and federal governments, banks and other institutions). Hence there is also no real possibility of comprehensive, total planning of all relationships within the national economy.

Every large decentralised system requires as much automatic regulation as possible. In any economy the market has to be accepted as the largest and most familiar mechanism of automatic regulation. An economic reform which is sincere in that respect is the balancing of demand and supply and their interaction with prices, not only on product markets but also as regards the relative prices of particular production factors.

Efficient management of the national economy still requires strategic planning. A long-term plan has to set national goals and priorities in economic and social development. Also, through medium-term plans, it must ensure the consistency of the main macro-economic relations, such as the balance of production and consumption, savings and investment, exports and imports.

Once the goals and priorities are set, competition to ascertain the best projects should be ensured by application of uniform, consistent criteria for the choice with a view to investment. Efficiency of the investment should be further secured by hardening the firms' budget constraints. Reconciliation of

its objective function with the priorities of society should be achieved by way of appropriate economic incentives.

Yugoslavia has long experience with combining planning and the market in national economic management. The task is by no means easy. The chief current concerns in that area will be discussed at the beginning of the next section.

IV. ROLE OF THE PLANNING MECHANISM IN STRUCTURAL
ADJUSTMENT POLICIES AND IN HANDLING UNEMPLOYMENT PROBLEMS

4.1 Planned objectives and targets
for employment growth

Because of the serious character of unemployment (described in section 1.5), the expected growth of the labour force and the accepted strategy of increasing employment, long-term and medium-term objectives and targets of employment growth have been set. The longer-term objectives are an integral part of the stabilisation programme, while the five-year plan 1986-90 defines the medium-term targets and policies.

The main long-term objective is to achieve full employment (excepting only frictional and seasonal unemployment) at the latest by the year 2000. This goal could be within the possibilities of the Yugoslav economy only if clear targets and priorities were set for the medium-term periods following 1990 and if appropriate measures of economic policy were framed.

The immediate task is to stop the growth of unemployment and reverse adverse employment trends. In the next five-year plan conditions should be created for reduction of the number of unemployed. It has also been decided that special attention should be given to: (1) employment of educated young people entering the labour force; (2) employment of presently unemployed workers; (3) employment of the workers unavoidably transferred from agricultural to non-agricultural activities; and (4) employment of migrant workers returning from abroad.

The stabilisation programme contains an estimate according to which full employment by the year 2000 would require additional employment of 2.4 million people (counting from 1982) or some 120,000 each year. The average number of newly employed people should be 130,000 a year until 1990 and 110,000 yearly after that - equivalent to an employment growth rate of 2.1 per cent in the first period and 1.5 per cent in the second.¹

¹ Stabilisation programme, op. cit., Vol. I, pp. 100-101.

The draft five-year plan (1986-90) sets employment targets within the following assumed demographic situation. The size of the population of Yugoslavia in 1990 is expected to be 23.7 million (15.4 million of working age and 11 million economically active). The proportion of economically active in the total population is expected to increase from 44.2 per cent in 1985 to 45.7 per cent in 1990. The share of agriculture in the total of economically active population will diminish from 24 to 19 per cent.

The rate of growth of new employment is set at 2 per cent a year (2.4 per cent in the period 1981-85). However, this growth rate should be achieved simultaneously with an equivalent growth of labour productivity, which was not the case in the previous five years.

The above target for employment growth implies a cumulative aggregate of 1.75 million people employed as replacements or in new jobs between 1986 and 1990. The share of skilled labour in the total labour force should increase from 71 to 76 per cent. Some 400,000 additionally employed trainees should contribute. The above employment growth target is still significantly below the demand for employment, which is estimated to amount to a cumulative total of 2.6 million people in the years 1986-90.

Since the demographic situation and the pattern of unemployment differ greatly between the regions (republics and provinces) of Yugoslavia, the respective employment targets will be specified in the five-year plans of the various federal units.

4.2 Designing growth strategies in the light of comparative advantage with regard to skilled labour

The stabilisation programme and the draft five-year plan contain a range of proposed economic (as well as administrative and legal) measures aimed at relieving unemployment and creating new employment. However, the scale of the unemployment problem is such that it cannot be solved without some changes of the development pattern. The most significant source of new employment openings could be the design and implementation of growth strategies based (at least partially) on the labour supply which is one of the country's comparative advantages.

It should be clear that whatever explanation of comparative advantages is accepted, the scarcest resources in Yugoslavia are capital and foreign exchange, while labour (skilled and unskilled) is the most abundant. No doubt land and other natural resources could be regarded as a source of comparative advantage for agriculture, non-ferrous metallurgy and non-metal mining. On these grounds it is fair to assume that comparative advantages should be easier to find in labour-intensive (and skilled labour-intensive) sectors of production than in capital-intensive sectors. That would mean not only a general improvement of resource allocation within the country, but the creation of real chances to increase productive employment as well. The question is: how much and how fast is the Yugoslav economy able to adjust its structure of production, its exports and its pattern of employment in that direction?

There are indications that such an adjustment was beginning as soon as the real price of international capital started to rise at the end of the 1970s. (That price was relevant for Yugoslavia because of the high share of investment financed with foreign capital.) Compared to the previous five-year period, the growth of capital intensity in production (fixed assets per worker) in the period 1976-79 fell below the production sector average in construction, trade and catering and others (not including industry, transport and communications and agriculture). The annual rate of employment growth in the former group of sectors was 5.8 per cent, 4.3 per cent and 5.6 per cent respectively, compared to the average for all productive sectors of 4.1 per cent.¹

However, the identification of sectors with comparative advantage must be broken down further so that it includes the manufacturing industry, in order to check the comparative advantages of development and in particular the compatibility of export expansion with the goals of employment growth. Unfortunately, little research has been done on this subject. A comparative study by B. Balassa,² including Yugoslavia in a sample of 36 developed and

¹ Yugoslavia - Adjustment policies and development perspectives, A World Bank Country Study (Washington, D.C., World Bank, 1983), p. 190.

² B. Balassa: A stages approach to comparative advantage, IBRD Staff Working Paper No. 256 (May 1977), p. 13a.

developing countries, seems to confirm that the comparative advantages of Yugoslav exports of manufactures are negatively correlated to the capital intensity of their production. According to his results, Yugoslavia loses 0.47 per cent of its average export advantage for every 1 per cent rise in capital intensity. The disadvantage is less in human than in physical capital. Product-wise (in 1975), Yugoslavia has shown the highest known comparative advantages in the export of footwear, furniture, power distributing machinery, live animals, unmanufactured tobacco, shaped wood, aluminium, copper, ships and boats, electrical power machines, clothing and other textiles.¹

According to the results of some detailed studies of Yugoslav industry,² labour-intensive industries (footwear, textiles, furniture, printing, electrical machinery and miscellaneous manufactures) and moderately labour-intensive sectors (non-electrical machinery, metal fabrications, sawmills and wood board, rubber, leather and fur) engaged 51.5 per cent of the total industrial labour force in 1980; in addition, 34.3 per cent work in median (as opposed to capital- and highly capital-intensive) industries. The rate of employment growth (1975-80) was 3.7 per cent and 4.8 per cent in the two labour-intensive groups, compared to the industrial average of 3.5 per cent.

The question is how far this pattern of production and employment is consistent with comparative advantage in exports or import substitution, and whether the actual development policy shows any intention to use those possibilities for the creation of new employment. It is difficult to assess the true comparative advantage of various sectors of the Yugoslav economy in the presence of serious distortion of factor prices. The domestic resource costs (DRC) of foreign exchange obtained within a CGE model using shadow prices can be accepted as a fair indicator of comparative advantage.³ They show that, with a downward correction of the (relative) shadow price of

¹ IBRD: Yugoslavia: Export performance and policies, Report No. 2972-Yu. (1980), p. 25.

² Yugoslavia - Adjustment policies, op. cit., p. 418.

³ Yugoslavia - Adjustment policies, op. cit., p. 81.

labour, the labour-intensive industries (textiles, leather, rubber, wood, electrical equipment, other machinery and miscellaneous manufacturing) retain their export profitability in social terms, and that some other sectors (transportation equipment, chemicals and paper) could also be included in that group.

The proposed changes in the structure of production revealed by the priorities in the draft five-year plan, although motivated not only by this but also by other aspects of structural adjustment,¹ seem capable of increasing employment.

The draft five-year plan proposes to direct 70 per cent of the available finance for new investment into priority sectors, defined as joint programmes of production on a Yugoslav scale. These priorities reflect the direction of structural adjustment. Such programmes, which aim at exploiting comparative advantage with a view to the increase of exports and employment are, for instance: the programme for doubling receipts from tourism; the programme of production and exports of equipment for electric power transport and distribution, electrical machines, electronic components, machine tools and non-electrical machines, hydraulic and pneumatic equipment; and the programme of passenger vehicle exports. In the manufacturing sector, provision for the faster growth of production for export has been made also in the textile, wood and furniture, and leather and footwear industries.

The comparative advantages of those sectors have been proved by empirical studies like those referred to in section 4.2. Estimates of the domestic resource cost of foreign exchange (earned by exports or saved by import substitution) also show the above priorities to be the most rational methods of earning foreign exchange.

4.3 Administrative and legal measures to relieve unemployment

The creation of new jobs by designing growth strategies in line with the advantage of abundant labour is certainly the first solution of the

¹ Some of the priorities are: domestic energy production and increased domestic production of raw materials and of basic food.

unemployment problem to apply in the framework of a structural adjustment policy. However, structural changes in the pattern of production and employment require time. Since unemployment is a pressing problem, the question naturally arises: what can be done in the short run, i.e. in less than medium term?

As many of the possible measures are clearly in the second-best class, they are frequently conceived as administrative and legal, although many are really usual measures of economic policy.

The stabilisation programme and the draft long- and medium-term development plans propose an extensive, mixed set of measures aimed at relieving unemployment. Some of them complement the immediate solution, some are second best, while others are administrative and legal, reflecting various forms of social or state intervention.

The stabilisation programme proposes the correction of the relative price of labour and measures to increase labour mobility.¹ These clearly complement the immediate solution mentioned above. The relative factor price of labour will be diminished by changes in fiscal policies. A good deal of taxes and charges levied on labour inputs will be lowered and replaced by income taxes or indirect (sales and purchase) taxes.

There already are some regions with an excess demand for labour. One of the tasks of the self-managed labour communities is to plan and organise migration of labour to their regions from those with high unemployment.

It has also been estimated that there are significant possibilities of increasing employment within the existing productive capacity of the Yugoslav economy. There are sectors of production with no demand constraints where, because of bottlenecks of various kinds, plant equipment is used on only one or one and a half shifts. By increasing the degree of capacity utilisation in such sectors, much new employment could be created. Fiscal measures also could encourage firms to act in a similar way.

There are many reasons why economic policy should exploit the possibilities of employment creation in small-scale industry and the tertiary

¹ Stabilisation programme, op. cit., pp. 103-109.

sector. Services are a traditionally badly organised sector, with chronic excess demand to which large-scale firms of the social sector do not respond. The same applies to the production of small series of intermediate and final industrial goods. Activities in those sectors are labour intensive and in many cases the necessary capital for the establishment of such firms already exists. Small-scale industry can be organised within either the social sector or the small private sector of the economy. Migrant workers returning from other European countries usually have the necessary capital, skill and know-how to establish small-scale industrial establishments, employing themselves and several other workers as well.

A more flexible approach towards the statutory working week could also help to increase new employment. A shortening of the present 42-hour week should be seriously considered. The draft long-term social development plan of Yugoslavia for 1986-2000 proposes to reduce the working week to 35 hours by the year 2000¹ (after it had been cut to 40 hours by 1990). Changes in the legislation have been introduced to allow various kinds of employment for less than full time (two workers, especially young trainees, to share a job, etc.).

There is still some shortage of agricultural products within the country: production could be increased on small-scale private farms. By adjusting the economic conditions to equate income from agriculture with that of urban employment, such production and self-employment could be greatly encouraged. To slow down migration to cities, dispersion of industrial plants to small towns and villages will also be encouraged.

Moving new industrial establishments to regions with abundant labour could increase employment in the less-developed parts of the country and help to overcome the inter-regional immobility of labour due to historical, ethnical and administrative reasons which have already been mentioned. This is now more likely to happen than previously, since a correction of relative factor prices is already in process (interest rates are rising and labour costs relatively diminishing because of the switching of some taxes and contributions from wages to the income of the firm). The recent encouragement of joint ventures between Yugoslav enterprises from more and less developed regions should also have similar effects.

¹ Skupstinski pregled (Review of the federal parliament), 1985, No. 283, p. 11.

Although created by administrative decision, the republican, provincial and local self-managed labour communities have an important role in planning employment, supplying statistics on unemployment and defining criteria according to which new jobs are allocated. Together with the education communities, the labour communities are trying to reduce the gap between their skill and vocational training structures and their production structures, while reshaping the system of education is making it more consistent with social needs. The present gap is already dealt with to a certain extent by retraining workers.

Some of the measures envisaged are expected to compensate for the incomplete operation of the machinery for allocating resources, which is supposed to be market oriented. Such measures are: to encourage the investment of private foreign exchange and dinar savings in socially owned enterprises; to raise loans from the population, especially from new job creation;¹ and to include employment creation in the criteria applied by the banking system for evaluation of investment projects.

Finally, there are two sets of administrative palliatives, aimed at relieving unemployment. Legal obligations have been established for every plant (or other unit) which is part of a production enterprise or even a non-profit-making organisation to employ each year, regardless of their needs, a certain number of young trainees. Exemption from this obligation is only exceptionally granted by the local authorities. Secondly, in 1984-85 the age of retirement was reduced by law: all personnel without exception now have to retire at age 60 after 40 years of work, or at age 65 (at the latest) after less than 40 years. As a great many people who started working after World War Two are approaching the new retirement age, this measure will free a significant number of jobs.

4.4 Limitations of the planning system as regards employment

The "no lay-off" constraint and the socialisation of risk and price policies favouring labour-intensive sectors are among the features of the

¹ Such a decision already has been taken in the Republic of Bosnia and Herzegovina.

Yugoslav system which make it promote employment expansion and also resist employment restriction during periods of recession. The system thus has in-built tendencies towards overemployment which dominate its action despite the restrictive effect of its institutions and the functions they confer upon it. A relatively high level of employment will, therefore, be secured in the short run without any deliberate outside interference and particularly without the help of the planning system.

The troubles emerge when the object is to steer development in the long run. Excessive employment in the short run is achieved at the expense of efficiency and of the system's ability to adjust rationally to various changes in external circumstances. This is where the planning system intervenes and where its limitations become apparent.

For one thing, in an environment of distorted parameters for resource allocation and unrealistic valuation of the most important resources, it is difficult to develop a rational planning system. To be efficient, the planning itself has to rely to some extent on the market, which provides indispensable information on the preferences and needs of the population, on resource scarcities and many other elements. Without having a reasonably functioning market, the planning system is deprived - to use Kornai's language¹ - of its foothold. Moreover, the distorted parameters and deformed incentives make the system prone to generating movements which are inconsistent with social needs. In such a case extensive administrative intervention is bound to develop. These are the reasons why economic life is more and more regulated by ad hoc interventions which are hurriedly decided and implemented and - by their very nature - uncoordinated. In such an environment planning becomes impossible. This situation has induced several authors to state that the economy is deprived of both the plan and the market.² Strange though it may look, strengthening the market appears to be a necessary condition for erecting a rational planning system.

¹ Janos Kornai: Mathematical planning of structural decisions (Budapest and Amsterdam, 1975; Second Enlarged Edition), pp. 43-46.

² Zoran Pjanic: Samoupravni privredni sistem, Radnicka stampa (Beograd, 1983), pp. 169-179.

Two weaknesses of the planning system as a tool for realising employment objectives can be identified at practically all stages of planning. To begin with, serious difficulties arise at the formulation stage. Various social institutions have become autonomous creators of development policy. In particular, republics and even towns have by the 1974 Constitution obtained a very high degree of autonomy and become responsible for their own development. As pointed out above, their interests are very frequently divergent and even directly opposed. An efficient mechanism for the pooling of interests has not yet been set up. Therefore bargaining, with all its deficiencies and dangers, remains the only workable procedure for attempting to reach agreements. No wonder such a procedure does not work smoothly. A conflict of interests is more likely in the area of employment policies than in others: as shown above, the unemployment problem does not burden all republics and provinces to an equal extent.

The plans are supposed to be based on social compacts and self-management agreements. Because of the lack of efficient procedures for harmonising the interests of those involved, agreement is very difficult to reach - and it is especially difficult to do so in good time. Some agreements, to be acceptable to all parties, have to be phrased so generally and vaguely that they hardly give any concrete guidance for practical action; the really tough business of rendering those unhelpful formulations operational is left for some future time. Others are reached after so much delay that by the time they are officially adopted, they have become irrelevant. Still others are never concluded. Things are further complicated by the extension of the bargaining process into the stage of plan implementation.

In addition to this, the planning system is not unified in the sense that plans at lower levels fit into the plans at higher levels of social organisation. In particular, republican and provincial plans are, in practice, formulated independently of the federal plan and independently one of another. That has an important bearing on the prospects of dealing successfully with the unemployment problem because co-ordination of plans is next to impossible and rational overall distribution of future capacity in labour-intensive sectors is difficult to achieve.

The extraordinary complexity of the planning, apart from the inherent difficulty of arriving at social compacts and self-management agreements, makes it inefficient for dealing with employment issues. All planning agents

are under the obligation to draw up tentative plans; republics and federations make their provisional aggregate projections of future development at the same time. A comprehensive, all-embracing process of exchange of information, reconciliation of interests and harmonisation of plans is supposed to take place and mutually co-ordinated plans are expected to emerge from successive discussions. In practice this massive machine was unable to function as intended; the process turned out to be so time-consuming that it would probably not be completed before the end of the relevant plan period. It had therefore to be interrupted long before it had produced acceptable solutions, with the result that higher-level plans did not constitute a consistent, harmonised resultant of lower-level plans, as initially envisaged.¹ The enormous amount of information required to keep the process going has led some economists to speak of an "information barrier" in planning.² The information needed is so intense, the planning so complex and the decision-making process so costly that the system is slow and inert and its adjustment to external changes is fraught with intolerably long delays. That is precisely the reason why institutional changes are so heavily emphasised in the Yugoslav programme. They are to improve the flexibility and clarity of the system, especially since state enterprises do not exist and most central policy instruments - such as a central tax system - have been eliminated in practice. Even the banking system is largely decentralised, the powers and functions of monetary management having been partly transferred to the republics, which exert heavy influence and pressure on the nominal central institutions.

Plans play only a marginal role in framing development policies. As in many other countries, in Yugoslavia too they become, in part, irrelevant. This irrelevance is twofold: (i) institutions responsible for economic policies do not pay full attention to the plans; (ii) the existing economic system generates incentives for economic agents which widely diverge from the directions laid down in the plans.

¹ Cf. Research Centre of the Faculty of Economics, op. cit., pp. 361-362.

² Savezni drustveni savet za pitanja drustvenog uredjenja: Sistem drustvenog plairanja u privrednom sistemu SFR Jugoslavije (1981), p. 83.

Limitations of the planning system are numerous and are intensely felt in all parts of the economic system. In that respect employment is no exception. But the system's autonomous tendency to create employment, and not to reduce the level when economic conditions seem to indicate that it should, have enabled it to make a relatively satisfactory contribution in this area, at least in the short run.

V. RESULTS OF STRUCTURAL ADJUSTMENT POLICIES FROM THE
STANDPOINT OF EMPLOYMENT AND SOCIAL WELFARE

5.1 Employment record

The performance of structural adjustment policies as regards employment is one of the most important criteria of their effectiveness. But a caveat is certainly in order here. Much more weight is attached to employment growth in the Yugoslav programme of economic stabilisation than in the IMF programme. It is in the spirit of the IMF programme to make a partial sacrifice of employment so as to have stability in other sectors. Yugoslav policies, on the other hand, have never been disposed to make such a sacrifice; they have endeavoured to achieve both stabilisation of the economy and a reasonable expansion of employment. In the event, employment growth has been quite rapid (if regard is had to the poor general growth record) and this has a high place in the Yugoslav scale of criteria. It is apposite to add that the higher valuation of employment in the Yugoslav plan reflects not only the fundamental institutional features of our community which are outlined in the introduction to this study, but also the objective necessity of generating additional jobs, especially in view of the highly uneven regional distribution of unemployment.

5.1.1 Growth of employment and
changes in productivity

As indicated above, employment has continued to grow in the 1980s, when both stabilisation programmes were launched, although economic growth had come virtually to a standstill and in some years the GMP had even declined. The following table summarises the relevant information.

The "share of productivity" means the share of the rate of growth of productivity in the rate of growth of the GMP.

The employment growth rate varies significantly from time to time, but two details are highly interesting. First, it is only remotely, if at all, connected with variations in the growth rate of the GMP; in three out of six possible cases even the directions of change of these two rates do not coincide. Second, the lowest rate of growth of employment has not been reached in the most recent period, that of stagnation of economic growth.

Table 19. Rates of growth of social product, employment and productivity (in per cent)

Period Period	GMP GMP	Employment Employment	Productivity	Share of productivity
1960-64	10.41	4.97	5.19	51.1
1964-70	5.63	1.09	4.50	80.5
1970-75	6.47	4.33	2.06	67.8
1975-79	7.15	3.72	3.31	47.1
1960-70	7.52	2.62	4.77	64.6
1970-79	6.77	4.06	2.61	39.1
1979-84	0.52	2.31	-1.74	...

Sources. SBY 1984, p. 82; GMP for 1984 estimated on the basis of information provided by the Federal Planning Bureau; employment for 1984 taken from table 7.

Instead, it was reached in 1964-70, the period of the famous economic reform, when the rate of growth of the GMP was far higher. In fact, continued employment expansion led to absolute decline in productivity, an unnatural and indeed unique occurrence.

It is not to be forgotten that this achievement was obtained at the high price of an absolute decline in productivity. For various reasons, among which international competitive capacity plays an especially important part, Yugoslav policy-makers have always considered productivity growth to be extremely important. That productivity should have been sacrificed to employment demonstrates the heavy weight attributed to the latter.

It should not be concluded, however, that recorded employment growth exactly represents the result of the policies consciously pursued in order to reach that objective. It was more the result of the automatic functioning of the institutional system, a logical outcome of the nature and behaviour of built-in mechanisms. Especially important in that respect were the "no lay-off" constraint which has been mentioned several times and poor response of Yugoslav enterprises to market signals. Partial abolition of enterprise autonomy, with persistent interference by local and republic authorities in the nominally independent decision making of the firms, must also have played some role. The favourable outcome - from the Yugoslav standpoint - as regards

employment is, therefore, not a predictable result of systematic policies undertaken at the level of the country as a whole, but it is certainly consistent with the preferences on which such policies would have been based, had there been efficient institutional machinery for their practical implementation.

5.1.2 Unemployment and the flight from agriculture

The unprecedentedly high rate at which people have been leaving agriculture has further augmented the rapidly increasing unemployment. Table 20 gives information on recent trends as regards the numbers of registered jobseekers.

Table 20. Registered jobseekers and the rate of unemployment
(jobseekers in thousands, other indicators in per cent)

	Social sector employment	Number of jobseekers	Rate of growth of employment	Increase in no. of jobseekers	Rate of unemployment
1976	4 833	665	...	...	12.1
1977	5 052	717	4.5	7.8	12.4
1978	5 280	738	4.5	2.9	12.2
1979	5 506	775	4.3	5.0	12.3
1980	5 681	789	3.2	1.8	12.0
1981	5 846	833	2.9	5.6	12.5
1982	5 980	887	2.3	6.5	12.9
1983	6 097	916	2.0	3.3	13.1
1984	6 224	975	2.1	6.4	13.5

Source. SBY 1984, pp. 126, 139; for 1984, table 7.

The first thing to note is that the increase in the number of jobseekers has fluctuated much more from year to year than the rate of growth of employment. This indirectly confirms that not all jobseekers are literally jobless and that their registration as unemployed reflects a number of factors other than their status (i.e. true unemployment or marginal employment). There is obviously no systematic relationship between the two series of growth rates, but it may be observed that the rate of growth of unemployment tends to exceed that of employment. That tendency was especially perceptible in the

most recent years - which of course implies that the unemployment rate (defined in this instance as the proportion of the number of jobseekers to the sum of the numbers of jobseekers and employed) is slowly but systematically increasing.

Increase in the number and rate of unemployment casts a shadow on the increase in employment as one of the positive elements of the recent growth performance. It is disturbing also that the relatively rapid growth rates of unemployment are calculated on a higher base, which magnifies the absolute increase in the number of jobseekers; and they, of course, are the category with which economic policy is in reality confronted.

The increases in the number of both employed and unemployed reveal that the pressure driving people out of agriculture still operates, though it is bound to diminish in the foreseeable future: social sector incomes are in a steep decline and incomes in agriculture - due, among other things, to the smaller labour force - are on the rise. That factor alone should cause a not too far distant reduction of one of the greatest imbalances of the Yugoslav society, and of the pressures emanating from it. In other words, conditions are being created which will cause the flight from agriculture to subside.

5.1.3 Employment and unemployment compared

A complete evaluation of the results of present policies in the domain of employment requires an insight into the structures of both employment and unemployment. It has long ago been noticed that the structure of unemployment is "improving" in the sense of increasing the percentages of skilled workers and the young (i.e. of the most able) who are in total unemployment. Such a tendency is, of course, undesirable: it implies increasing wastage of precious human capital and also growing social injustice.

There are several ways in which a structure can be defined and appropriate changes examined. The regional structure has already been analysed (cf. subsection 1.5.4). It was shown there that unemployment is, from a regional point of view, very unevenly distributed, the underdeveloped regions being the ones carrying the heaviest burden. The rates presented in table 21 deal with the employment situation and show two important features of this regional aspect, namely that employment in the underdeveloped regions is relatively low and unemployment relatively high. An additional insight is provided by

computing the shares of all the regions in the total number of jobseekers and their shares in total employment in the social sector and comparing them. The results are presented in the following table; they throw additional light on the unequal regional impact of unemployment.

Both sets of percentages are of course affected by the size of the regional population, but this factor does not affect the ratios. A ratio of 1:1 would indicate that the region has an "average" position with respect to employment and unemployment. The gravity of the situation is measured by the magnitude of the coefficient. Kosovo again appears to be in the most difficult position, having a coefficient of nearly three, or about six times as great as Croatia and no less than 21 times as great as the coefficient for Slovenia. So the regional structure of unemployment bears no resemblance to the regional structure of employment.

Table 21. Regional shares in employment and unemployment, 1983

Region	Percentage in social sector employment	Percentage in unemployment	Ratio of (1) to (2)
Bosnia and Herzegovina	15.2	20.7	1:1.36
Montenegro	2.3	3.4	1:1.48
Croatia	23.9	11.8	1:0.51
Macedonia	7.7	13.6	1:1.77
Slovenia	13.0	1.8	1:0.14
Serbia proper	25.2	29.3	1:1.16
Kosovo	3.2	9.5	1:2.97
Vojvodina	9.5	9.9	1:1.04

Source. SBY 1984, pp. 449, 454.

An important dimension of the employment record is the change of the skill structure of the employed and unemployed. In principle it is desirable for the skill level of the employed to improve and that of the unemployed to deteriorate, or at least for the former to improve at a more rapid pace. What has actually happened departs substantially from that pattern.

The structure of employment is given for the social sector only. The structure of unemployment relates to jobseekers.

The tendencies are clear. Whereas both structures are improving in course of time, the pace of improvement is substantially greater in the case of unemployment. The share of the first (i.e. highest) skill category in the case of employment increased in a proportion of 1.6 in the period under consideration, while the share of the same category in the case of unemployment was multiplied by 6.5. An analogous tendency can be found in the share of the third or lowest skill category: this decline by 28.9 per cent in the case of employment and by 35.4 per cent in the case of unemployment. The more rapid improvement of the structure of unemployment illustrates the widely discussed "job monopoly" of persons already in employment and should be regarded as an unfavourable feature of the employment record.

Table 22. Structure of employment and unemployment (in per cent)

Level of education	1965	1970	1975	1981
University, higher and secondary education:				
Employment	18.7 ¹	23.1	25.6 ²	30.1
Unemployment	4.5	13.2	17.3	29.3
Skilled and highly skilled manual workers:				
Employment	38.8 ¹	39.7	40.6 ²	39.7
Unemployment	11.7	12.7	19.2	16.6
Semi-skilled and unskilled workers:				
Employment	42.5 ¹	37.2	33.8 ²	30.2
Unemployment	83.8	74.0	63.5	54.1

¹ Relates to 1966.

² Relates to 1974.

Sources. SBY 1984, pp. 130, 140; for unemployment in 1965 and 1970, table 11.

Similar disquieting tendencies can be detected in the changes of age structure. Workers employed in the social sector become older in comparison with the unemployed. It is shown in table 11 that the younger age groups tend to dominate the jobseekers' age structure. At the same time older age groups increase their share of the employed. Indeed, the share of youth (workers of age 27 or less) dropped from 22.5 per cent in 1972 to 21.1 per cent in 1981.¹

¹ SBY 1984, p. 136.

5.2 Social welfare effects of structural adjustment policies

Structural adjustment programmes starting in difficult conditions and under strong external constraints, including reforms oriented towards greater reliance on the market economy, usually lead - at least temporarily - to increased differences between personal incomes, increased social differences and intensification of social problems. Such possible effects of the Yugoslav Stabilisation Programme have been anticipated. The programme itself contains a chapter on social policy, reflecting both the goals of social development and the ways and means of dealing with the consequences of the proposed adjustment and economic reform.

It will be convenient first of all to examine some indicators of the social welfare effects of stabilisation and structural adjustment policies since 1979. In Yugoslavia - taking into account its level of development, labour-management system and social ownership of the means of production - income from property and financial investment is not an important source of individual or family income. It therefore seems sufficient and appropriate to judge the social welfare effects of the adjustment process on the basis of real personal incomes, non-wage incomes, personal consumption and the standard of living, the behaviour of income differentials and the policies protecting low-income strata of the society.

The figures in table 23 are by no means inconsistent with a downwards adjustment of the balance of payments, i.e. its conversion from an enormous deficit to a modest surplus in only four years. Of course, what is called in Yugoslavia total "domestic absorption" (personal and government consumption and investment) had to fall in real terms in order to match the change in the balance of payments at the current low rate of growth of national income. An entirely separate question is whether that had to happen at such high rates of inflation.

As always happens in an inflationary process, wages, pensions and welfare programmes were most seriously affected. However, the fall of real personal incomes is not inconsistent with the decline of labour productivity. Real personal incomes have been falling more in the non-productive (non-profit-making) institutions than in the production sectors of the economy. Taking the country as a whole, the fall in real earnings was greater

in the less developed than in the more developed republics or regions, so that the regional income differentials were aggravated. The differences between the rates of change of real earnings in various sectors of the economy mainly reflect changes in the relative prices of products caused by that part of inflation which was not controlled and to some extent by deliberate policies of structural adjustment.

Table 23. Some indicators of changes in the standard of living
(annual real rates of change in per cent)

	1980	1981	1982	1983	1984
Living standard - total	0.4	-1.9	-0.7	-3.1	-1.9
Personal consumption	0.7	-1.0	-0.1	-1.7	-1.5
Social standards ¹	-0.9	-5.6	-3.1	-9.4	-3.9
Real personal income per worker	-7.6	-5.0	-3.3	-10.3	-6.1
Average pension	-7.1	-9.9	1.3	-10.3	-14.0
Housing investment	-0.4	-6.6	1.0	-10.3	-7.2
Retail trade turnover	1.0	-6.0	1.0	-3.0	-4.0

¹ Education, health, culture, welfare, housing.

Source. Federal Planning Bureau, Draft Five-Year Plan documentation (Belgrade, 1985), p. 241.

So non-wage incomes account for the relatively modest fall in overall personal consumption, compared to the considerable fall in real wages and salaries. It should be borne in mind that although the share of receipts from abroad (workers' remittances) diminished, the dinar equivalent of the receipts increased in nominal terms (due to depreciation of the national currency) and so did interest receipts on the population's foreign deposits. The overall fall in total absorption is caused by the deliberate policy of converting the balance of payments from a deficit to a surplus.

From the difference between the rates of decrease of personal incomes and personal consumption, it is obvious that part of the latter has been financed from the non-wage incomes of the population.

Table 24. Sources of income of the population (in per cent)

	1980	1981	1982	1983	1984
Total receipts	100.0	100.0	100.0	100.0	100.0
Wages and salaries (social sector)	51.6	54.8	51.4	46.5	46.8
Pensions and social insurance	14.0	13.6	13.5	12.4	12.1
Earnings in private sector	7.2	7.5	8.3	8.1	7.8
Consumption in kind in agriculture	6.3	6.4	6.4	6.2	6.7
Fringe benefits and net credits	6.3	5.9	4.7	2.6	2.3
Receipts from abroad (net)	11.3	10.0	9.9	7.4	6.9
Other receipts (interest, life insurance, etc.)	3.3	2.8	5.8	16.8	17.3

Source. Federal Planning Bureau, op. cit., Main indicators, p. 39.

Some sources of income decreased less in real terms than others. That applies to earnings in the private sector, where it is explained by the growth and greater flexibility of employment there. The growth in receipts of interest on savings deposits reflects the increase in nominal rates of interest, undertaken in the attempt to approach real positive rates of interest. Consumption in kind by the rural population did not have to fall in proportion to its diminishing money earnings.

Even in such circumstances, total personal consumption continued to be 25 to 30 per cent below the receipts of the population. There was consequently a real increase in the total savings of the household sector and an increase in its payment of income tax and other charges.

There are also non-monetary indicators of diminishing personal consumption. The average monthly consumption of meat and fish, meat products, edible oil, milk, fresh fruit and vegetables, and sugar, has been steadily falling since 1980.¹

¹ SBY 1984, op. cit., p. 175.

Yugoslav statistics are not successful in capturing changes of income differentials which stem from a wide variety of sources. Indeed, the family is neglected as a subject of economic statistics.

Traditionally, Yugoslavia used to belong to the group of countries with fairly equal income distribution.

Table 25. Income differentials

	Shares of household income by percentage groups of households								
	Lowest 20%:			Highest 10%:			Highest 5%:		
	1960	1970	1978	1960	1970	1978	1960	1970	1978
Yugoslavia	7.0	7.0	6.6	...	...	22.9	17.0	15.0	...
Reference group of countries	...	4.2	...	...	...	...	...	28.3	...
<u>Sources.</u>	IBRD: <u>World tables, 1976</u> (Baltimore, John Hopkins University Press, 1976), p. 517; IBRD: <u>World Development Report 1985</u> , op. cit., p. 229.								

Between 1960 and 1970 income differentials in Yugoslavia narrowed and there was a much more uniform income distribution than in the group of countries at the same level of GNP in 1970. The drop in the share of the lowest quintile by 0.4 percentage points between 1970 and 1978 might well be a normal consequence of fast growth of the GNP, both total and per capita. For the 1980s, reliable data on income differentials are not to hand, but of course a widening of income differentials, consequential on different rates of loss of real income, would not be surprising.

However, the narrowing of wage differentials was a long-term trend. The index of wage inequality fell from 19.0 per cent in 1963 to 14.7 per cent in 1980.¹ Acknowledging this tendency, the stabilisation programme anticipated

¹ This means that, in 1980, a redistribution of only 14.7 per cent of the sum total of wages would be required to equate all wages within the economy. Source: Stabilisation programme, op. cit., Vol. II, p. 75.

an increase of global income differentials - especially of non-wage incomes - as a consequence of the economic crisis and deflationary adjustment policies.

A special chapter of the stabilisation programme therefore deals with the anticipated adverse social welfare effects of the adjustment policies. Many measures of social policy existed in the earlier years. However, they were not fully implemented, since Yugoslavia had a fairly level income distribution and a high level of job security. Only when it became clear that the stabilisation and adjustment programme called for austerity measures were institutions and measures of social policy strengthened.

Table 26. Indicators of social welfare policies (number of recipients)

	Child allowances	Pensions			Unemployment benefit
		Personal	Invalidity	Family	
1979	1 674 000 ¹	577 000	534 000	429 000	17 882
1980		609 000	573 000	453 000	17 571
1981		624 000	604 000	465 000	19 345
1982		650 000	623 000	487 000	22 669
1983	1 750 000	687 000	644 000	507 000	35 420
1984		707 000	657 000	522 000	...

¹ 1973.

Source. SBY 1984, pp. 141, 392.

The position of child-care institutions has been improved to ensure approximately equal conditions in early life and similar personal development. Low-income families receive indexed child allowances. Specific problems of social policy of the urban and rural low-income groups will be dealt with by measures to slow down rural-urban migration (relative increase of incomes in agriculture and dispersion of industrial activities to rural regions). In much of the country, aged private smallholders are already included in the health and retirement insurance schemes. Temporarily unemployed workers receive unemployment benefit proportionate to the length of their previous employment. Special measures are designed to ease reintegration into the workforce of migrant workers returning from abroad: they are encouraged to

set up new small-scale industrial establishments in which they themselves and other workers can be employed. In general, retirement pensions are indexed to the growth of average nominal wages and salaries in the respective republics and autonomous provinces.

There are numerous other measures of social welfare policy, the effects of which cannot be expressed by any common denominator. Many measures of economic policy in Yugoslavia have a special component embodying social welfare aims: for instance, one object of minimum wage regulation is to ensure payment of a subsistence wage. Many fringe benefits and other receipts from the income of enterprises (holiday allowances, meals during the working day, housing loans and credits) are differentiated, i.e. biased in favour of the low-income groups.

Outside the enterprises, in local communities, the housing, water and heating costs of low-income groups are subsidised. Commodities which strongly affect the cost of living (milk, chickens) are subsidised or the production costs of agriculture are lowered by subsidies on fertilisers, etc. Purchase taxes are low (or nil) on food, textiles and children's clothing. Social care centres distribute additional monthly allowances to some 150,000 out of 6 million Yugoslav families.

There is no doubt that, on the whole, these measures have helped the low-income groups considerably to bear the burden of a deflationary adjustment which diminishes real disposable income. However, the application of some of those measures (especially subsidies and differentiated prices) will have to be restricted in order not to interfere with the necessary role of the market in the resource allocation process.

VI. CONCLUSIONS

The turn of the last decade marked the beginning of policies of structural adjustment in the Yugoslav economy. They were rendered necessary by a number of factors. On the one hand, the external environment had profoundly change. On the other, certain processes could not by their very nature be continued for ever. In particular, domestic absorption had outstripped domestic production by a considerable margin; in the latter 1970s that was made possible by rapidly accumulating foreign debts; so it was obvious that, with repayment imminent, absorption would have to be cut down abruptly.

Excessive absorption had led predictably to the usual macro-economic imbalances. Over-investment and rapid expansion of other categories of final demand had set up strong pressures on the domestic market and caused powerful inflationary tendencies. With the usual temporary halts induced by policy, the general price level rose fast, inflation with varying intensity gripped all economic sectors and - in those where price controls were more persistent and effective - the pressure of unsatisfied demand went up. Naturally part of the high pressure on the domestic market spilled over into the foreign sector and the balance-of-payments' deficit increased.

Many structural imbalances developed at the same time. They were the result of a defective system of allocation of resources available for investment and of an ineffective planning system. Over-capacity in some sectors and bottlenecks in others became part of the economic scene: they led to insufficient utilisation of capacity and reduced the economy's employment potential. Also, for a different set of reasons, demand for social sector employment continued to grow at a rapid pace. So underemployment of human resources and underutilisation of capacity developed as an additional type of macro-economic imbalance. All these disturbances had to be dealt with simultaneously, which made the task of structural adjustment policies extremely complex.

Its complexity was exaggerated by persistent drawbacks of the institutional arrangements which regulated the Yugoslav economy. A socially untidy and inherently defective system of income distribution, leading to unequal pay for the same kind of work and excessively narrow differentials between various skill rates; absence of fixed capital charges and a negative

real interest rate were among the factors which produced a highly distorted valuation of resources. The market signals based upon it could not, at the best, have provided correct indications with respect to the allocation of resources. But in addition came a low level of response and inadequate reaction by the main economic agents: these failings resulted, among other things, from the socialisation of risk, a complicated and indirect process of collective decision-making, and the possibility of operating in autarchic, sheltered and fragmented markets. In such a system of valuation and behaviour, structural adjustment policies are very difficult to implement. Some parts of the economy developed a high degree of resistance both to external pressures generated by changed circumstances and to deliberate action by economic politicians. Among such exceptionally resistant elements has been employment in the social sector. As it turned out, the Yugoslav economy - as far as employment was concerned - reacted very much unlike standard market economies and, while although economically inefficient, proved to have certain broader social advantages. These saved society from the calamities of massive lay-offs and an unbearable volume of unemployment.

The adjustment consisted, first, of drastically reducing investment. That was relatively easy because the bulk had been externally financed and under the more or less direct control of state and official organisations. It was more important that reducing investment did not meet strong resistance from any well-defined class of economic agents, because investment increases social capital and its cut-back did not affect immediate interests.

The situation differed widely when the aim was to reduce consumption. Here a much smaller percentage of personal incomes involved a much higher absolute reduction. There arose the usual kind of resistance, inspired by a desire to protect the level of consumption already reached. Moreover, consumption is less easy to control. For one thing, it can always be financed by reducing current savings or even by running down those which accumulated. Admittedly, some degree of collective control can be established over personal incomes, but they are not the only kind of income; moreover, their share in the total income of households is below 70 per cent and still declining.

Influencing personal incomes (i.e. earnings from labour) did not provide enough leverage to affect consumption to the desired extent. In order to achieve a given effect, reduction of incomes had to be more pronounced. Existing policies are so structured that income reductions apply to total

earnings. Coupled with the "no lay-off" constraint, which is built into the system, this meant that a mass personal income (reduced in real terms) is shared between the same or even an increasing number of workers. The brunt of the adjustment is thus borne by personal income per worker.

The ways of controlling consumption described in the preceding two paragraphs proved somewhat ineffective. That was basically due to the above-mentioned feature of the system - the lumping together of factor shares. No matter how much pressure economic policy applies to the entire mass of personal incomes, there will always be sectors which are able to fix relatively high incomes and to finance them on account of what should properly belong to production factors other than labour. This also accounts for worsening income distribution, by which two things are to be understood: (1) widening disparities in remuneration for the same type of work; and (2) narrowing differentials between particular skills. The system thus generates too much undesirable inequality and, in some respects, an excessive approach to equality. For these reasons it is more than difficult for the present system to share out the costs of stabilisation or to administer the wage cuts consistent with some planned, socially acceptable (if not desirable) pattern. The scope for shifting the burden to the private agricultural sector is also reduced because: (1) the size of that sector is smaller than it was in the 1950s and 1960s; and (2) agriculture is becoming a serious bottleneck for the economy as a whole and there is strong market pressure for its relative prices to increase. The state or analogous sector cannot play a role here because it does not exist.

The system showed a more than welcome resilience in maintaining and even expanding the inherited volume of employment. The alternative of laying off some workers and of providing higher (or unreduced) incomes for the remainder would have been socially much less attractive; also, human costs would have been much higher - a fact of perhaps equal importance.

It goes without saying that the advantages which have been described constitute a short-run phenomenon. They help the society to overcome difficulties arising out of sudden changes in economic parameters and the shocks which these are likely to generate. The long-run effects are not as favourable. Keeping an excessive labour force reduces efficiency and depresses the economy's savings potential. So the long-run development

prospects are diminished and the moment of reaching full employment on a sound economic basis is postponed. This is no doubt one of those fairly frequent cases in which some short-run relief is obtained at the price of long-run disadvantages.

Both programmes - the IMF and the Yugoslav - are designed for a market economy. The Yugoslav economy is a market economy in principle, but it has some important non-market characteristics. These are most pronounced in labour allocation. It should, therefore, come as no surprise that in the important field of employment the economy behaved in an unusual, non-standard manner which created unavoidable difficulties in the implementation stage of the official economic stabilisation programme.

INTERNATIONAL EMPLOYMENT POLICIES

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