

# Two Aspects of the Crises of the Eighties in Yugoslavia

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## I. Introduction

This paper will deal with the economic and social crises in Yugoslavia. The crises, which started in 1979, was triggered by the world recession but has continued unabated and without relation to events in the world economy. Thus it was an internally generated crisis, a crisis which is part of the secular growth path of the economy. It has a special place in the sequence of Yugoslav postwar crisis because of its length and size for the lowest point has not yet been reached by the middle of 1987. Indeed, the crises of the eighties has evolved into the countries longest, deepest and harshest crises in Yugoslavia's almost 70 year history with the exception of the Second World War, of course (Bićanić, 1986 ).

For this reason the paper will concentrate only on two aspects of the crises. The first is the administrating bias in the Yugoslav economy and the second the welfare effect of the crises on the population. This choice was made because these are the two areas on which perhaps more than elsewhere a return to growth depends. For the administrations track record must change since by its administrating and mismanagement of the economy it contributed to the emergence of the crises and to its length. The population must, for a return to growth, have the incentive to supply the labour input necessary for production. Without these two prerequisites even the best intentioned policy cannot succeed.

## II. The Administrating Bias in the Yugoslav Economy

Presently the Yugoslav economy can best be described as a 'no-plan and no-market ad hoc reflexively administrating economy.' In other words we are dealing with an economy in which all the major economic decisions are taken by an unaccountable administration (a term used here in its wider meaning and thus including top politicians, businessmen and government officials), the decisions are taken on an ad hoc basis (i.e. they

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are of a stop-gap nature, taken from case-to-case and with no necessary link to a coherent over-all policy) and are reflexive (meaning that decisions are taken after the event and hence increase secondary uncertainty and are frequently counterproductive due to policy lags) while the economic environment does not have markets (for markets are not used to determine prices or flows of commodities and services and hence do not motivate transactors) or plans (the planning mechanism is unimplementable and the unrealistic targets do not bind anyone). For brevity, this kind of economy will be called an 'overlord economy' (a term used in a different meaning than in how not to develop a country: An essay in economic pathology published in Bicanic, R. (1972). Even though the overlord economy has become more visible and prominent during the crises it has in varied forms been the dominant type of organization of the Yugoslav economy since 1929 (then King Alexander introduced his 'personal dictatorship'). Thus great care should be taken when putting the blame for the present crises on socialism, selfmanagement or the chosen paradigm of selfmanaging socialism i.e. on the 'associated labour paradigm' which has been implemented since the early seventies. Many Yugoslav economists, mistakenly, do just that.

Undoubtedly this paradigm (best described by its most prominent proponent, Korać (1977, 1980 and 1982) and most famous critics, Bajt (1986), Horvat (1985) or Pjanić (1983)) cannot be a foundation for organizing an economy. Its deficiencies have been well known since it was offered in the early sixties as one explanation for the operation of the 'Marxian Law of Value' in a socialist selfmanaged economy. An economy with no public price on capital or labour necessarily leads to many redistributions, allocative inefficiencies and very low factor mobility. Attempts to 'economize through agreements' eliminates the values necessary for round economic calculation and makes the budget constraint non-existent. Unclear ownership relations do not locate risk takers and lead to many inefficiencies. The list of defects could continue to include every aspect of the economy. But most of these criticisms share one common characteristic with the paradigm itself: they are theoretical, deductive, ideologically charged and very rarely based on state-of-the-art econometrics. For while the secular slowing down of the economy has been shown (Mencinger, 1986b) for an econometric analysis but most of the many books on the crises deal with the issue) not much research has been done concerning the question to what extent the paradigm was actually being implemented. Perhaps it reflects the tendency to overchange in the Yugoslav economy, or as a prominent Yugoslav economist put it "...when the Yugoslav economy runs into difficulties it tends to change the institutional

framework." (Horvat, 1970:5) while at the same time leaving the overlord economy unchanged (and unchecked).

The rest of this section of the paper will analyze the 'track record' of the overlord economy. Three aspects of administrative decisions will be dealt with. These are: (1) economic mismanagement leading up to the crises, (2) economic mismanagement during the crises and (3) adaptations to the overlord economy.

### 1. Economic mismanagement leading up to the crises

Two aspects of economic mismanagement prior to the crises must be distinguished. The first is related to the quality of the administrators and the second to the quality of the decisions which were taken.

Understandably, there is little information about the quality of the administrators. Apart from anecdotal evidence and folklore about the intelligence of administrators one serious study stands out together with the statements of top administrators. The study, Kregar *et al* (1985: 761-76), shows that the appointed civil servants in Croatia while studying law took exams more often, studied longer and got worse grades than the average student. Also, they had the typical value system of bureaucrats by respecting hierarchy and rules and disliking initiative and decisions. Even though a limited sample was taken in the study this is quite in agreement with statements of top administrators. Thus, the President of the Federal executive council was appalled by the ignorance and level of administration when she took her job (admitted in an interview after her mandate was over), the minister of foreign affairs stated (also after his mandate had run out) that half the ambassadors were not up to the job, the present minister of finance claims not to have the personnel for writing good laws, etc.

Administrators without the required expertise and negative selection over a period (i.e. not choosing the best and brightest) led to two phenomena. One is the much discussed 'dominance of politics over economics' (see, for example, Maksimovic ed. (1985)) by which all issues are reduced to political ones. The second is an increasing dependence on unofficial economic activities which offers the most efficient way of muddling through an overlord economy.

The poor quality of the administrators is best seen by the kind of decisions they made. Thus, for example, they did not react to the oil shock of the early seventies with an energy policy but resorted to importing capital (Drpić, 1985). In the early eighties neither the National bank nor the government knew the size of the debt even though the decisions to import capital was taken by government. The domestic currency was administra-

tively kept overvalued (Potić, 1985: 27-37) requiring an elaborate system of export subsidies and import barriers (Čicin-Šain ed., 1986). Even though only part of the imported capital was used for investments (Prica, 1983: 475-8) during the seventies economic policy initiated an investment boom (Perišin, 1980). The excess of domestic consumption over domestic production kept rising (Miljkovic, 1986). During the period of capital import policy was not achieving its goals. Thus the export sector was put into a disadvantageous position (Korošić and Mates, 1981: 33-44), monetary policy had a passive role (Rogić, 1985: 9-17) as did fiscal policy (Jurković, 1985: 101-18) while planning had become meaningless (Mencinger, 1986a).

This kind of economic policy led, over the long run, to inefficient growth. Thus the capital coefficient became increasingly unfavourable (Stipetić, 1986: 167-96), the differences in regional development increased (Bogunović, 1985), relative prices did not follow world trends (Popov, 1983), major redistributions of income between sectors continued (Korošić, 1984) and import dependence increased, especially that of the export sector (Babić, 1980: 419-40). During the whole seventies while development was showing these negative characteristics real incomes kept rising (Sefer, 1981) and the rate of inflation was increasing (Korošić, 1986). The national income lost through inefficient development was immense (when compared with the efficiency of similar countries as was done in Bajt (1986)) and the national economy was going through a process of increased peripheralization in the world economy (Bićanić, 1986a: 59-67).

By the end of the seventies and with another change of international circumstances the 'import-led-growth' bubble burst. The rise in oil prices, the rise in interest rates and the dollar triggered a world recession. In the case of the Yugoslav economy it triggered an internally generated crisis whose lowest point has not yet been reached by the middle of 1987.

## 2. Economic mismanagement during the crises

The economic crises of the eighties caught the administrators by surprise. But its severity (shortages of basic consumer products, rationing, a fall in real incomes by more than 10%, zero growth, debt repayment problems etc.) made ignoring it impossible. From the beginning the crises incited two types of reaction. The first were stop-gap policies targetted at maintaining international liquidity and domestic production. The second was the writing of a consensus blue-print for survival (which was written already by 1982).

The stop-gap policies were, largely, unrelated to the blue-print. Three

phases of stop-gap policies can be distinguished. The first lasted from the beginning of the crises (in 1979) to the 16th Plenary session of the CC of the LCY (in 1985). The second followed and lasted till the Intervention Law on Personal Incomes (i.e. till the end of 1986). The third phase started with the beginning of 1987 and is still running. The eminent analyzer of the first phase was the most prominent Yugoslav economist, Aleksandar Bajt (director of the Institute of Economics of the Ljubljana Faculty of Law, the only center of organized and serious empirical research in Yugoslavia) and the major constraint in policy decisions was the letter of intent to the IMF. The targets were to maintain external liquidity (which was achieved), reduce domestic consumption (which was not achieved in state and public expenditure thus redistributing an increasing share of national income to the administrators), increase exports (achieved at a lower level than planned) and maintain production levels. The targets were to be achieved by a phased increase in interest levels (to 1% above the inflation rate), downward-floating exchange rate (to a 'realistic level'), price controls (of major products) and an incomes policy (largely based on persuasion). Even such sceptical observers as another prominent Yugoslav economist, B. Horvat, thought that these second-best policies were and could go a long way in dealing with the crises.

When many of the targets had been achieved or were close to being achieved there was a major turnaround in economic policy. For by 1985 there was a series of meetings (the mentioned 16th Plenary session being focal) which led to the change. The change also coincided with somewhat more lax IMF conditions, a Congress of the LCY and the last days of the mandate of a Prime minister. The economist who supplied the theoretical explanation and justification for the political decision to change course was Milutin Ćirović, a professor of the Belgrade Faculty of Economics. Targetted inflation rates were decided upon and interest rates and exchange rates adapted to these rates (which meant a lowering of the former and a revaluation of the latter). Together with wage control it was imagined that the economy would get a sufficient stimulus and that the actual inflation rate would fall. However the administrative control over prices, foreign currency and enterprise income distribution remained.

The effects of the policy were the opposite of those intended. Inflation rose, exports fell, productivity growth fell and towards the end of 1986 when wage policy was loosened there were major wage increases in anticipation of a policy change. The last phase started in the beginning of 1986 with a rigorous wage control (a wage freeze for some and a reduction of money wages for other enterprises), a return to a policy of positive real interest rates and a downward floating exchange rate and a pledge to

introduce markets and ease direct foreign investments. But a rising rate of inflation, social unrest and defaulting in debt payments have increased administrating in price control and tabled suggestions of further administrating in foreign currency earnings.

The stop-gap policies of the third phase are, at least in rhetoric, connected to an economic reform. Thus major laws have been passed or are in front of parliament (e.g. changes in the Constitution, the Law on associated labour, laws on enterprise income distribution, banking, bankruptcy etc.). If implemented these laws would amount to a major reform of the economy. These change are based on the third blue-print. Since the start of the crises three blue-prints for survival were offered. The first is the Long-Term Programme of Economic Stabilization, frequently referred to as the Kreigher report or the Long-Term Programme, which was published in 1982. The second is the Critical Analysis of the Functioning of the Political System, referred to as the Critical analysis or the Vrhovec report, which was published in 1984. The third was published in 1987 and is called the Thesis for the Further Development of the Economic System.

The Long-Term Programme (LTP) and the Critical Analysis (CA) were written by two different groups of politicians (and social scientists they choose). Thus they represent two different blue-prints whose visions of the economic system make them mutually exclusive. They envisage different roles for markets (the LTP stressing their all-encompassing nature and the CA their historical temporality), calculation of factor costs (the LTP using prices and the CA *a priori* valuation), roles for banks (the LTP sees them as independent business while the CA stresses their role of financial service), macro-organization (the LTP stresses the work organization, i.e. the whole enterprise and the CA the basic unit of associated labour) etc. In many aspects the CA implied a return to the deductive principles on which the associated labour paradigm was built, principles which the LTP had avoided. The third blue-print, the Thesis, have a much narrower scope and claim to imply a return to the LTP. The narrow approach means that many vital (and divisive) issue have been sidestepped. The Thesis are clearest on the issue of attracting foreign capital, introducing money markets and for allowing more than one type of ownership.

Thus, as was seen, the track record of economic policy both in its stop-gap capacity and as a blue-print for survival has not been successful. Each change in economic policy has led to a further deterioration of the economy. The only unchanging characteristic was the increased reliance on the economic of overlord for there has been an increasing rigidity in the control of prices, wages, foreign currency earnings etc. Obviously the

administrators have a deep belief that rules, regulations, laws and limitations can represent a viable policy to deal with the crises, a policy less dangerous than any of the continuously offered reforms.

### 3. Adaptations to an overlord economy

The economy had to adapt to the described environment of economic mismanagement, overlord and administration with inadequate expertise. Over the long run there have been two main forms of this adaptation, both of them have very important results for the economic structure. The first is the 'bias to bigness' and the second increased reliance on 'unofficial economic activities'.

The bias to bigness reflects a structural adaptation of the economy to the economics of overlord. Over time the size distribution of Yugoslav enterprises (excluding the private sector) has become asymmetric so that it has a long lower tail and a short upper one. The distribution implies that there are few small firms (under 50 or 100 employed), a large number of big ones and very few large enterprises (by international standards). The average size seems to be somewhat smaller than that in comparable economies. Studying the size distribution of firms in the Yugoslav economy is difficult for institutional and statistical reasons. The definition of the enterprise is unclear (due to the relationship of basic organizations in composite ones) and the data base makes insufficient difference of enterprises and plants. But the results of present research concerning the bias is supported by the research of Petrin (1986), Očić (1983) and Miljković (1986). The first authors results indicate a similar distribution while the other two point to the existence of few enterprises with plants in more than one region. Anecdotal evidence also seems to indicate the described size distribution of firms.

The asymmetric size distribution, which has emerged over the long period, is a result of two interconnected influences. The first are the efforts of economic policy and the second the rational reaction of enterprises.

There are four dominant reasons why enterprises should react to the economics of overlord with a bias to bigness. Firstly it thereby internalizes markets. In an economy with no price on capital its mobility is very low so that large enterprises provide some degree of mobility. Also administratively regulated prices (which do not reflect scarcities) can be avoided in internal markets. Secondly large enterprises provide protection. There are internal funds to cover losses, there are greater resources to deal with administratively created shortages, there is greater bargaining power and lobbying power vis-a-vis the administrators and lastly there



is a greater probability of 'socializing the enterprise losses'. Thirdly the bias can be explained by the grandomania present in any developing country. For frequently it is easier to get finance for grand projects which are supposed to revolutionise life in a region than for small projects whose opening and backers pass unnoticed. Lastly, like in any economy, the size of the enterprise is connected to managerial prestige and status. The manager of a large enterprise appears thus more successful as a negotiator with the administrators over the terms of business.

While the above represents an *ex post* reaction there are also definitive reasons for the bias in the way the administrators have organized the economy. Social overheads are independent in form on firm size and thus represent a lower average fixed cost for larger enterprises. The vision of administrators involves a 'large is beautiful' so that many mergers are pushed through by politicians as efforts to rationalize and streamline the economy. The constraints placed on the private sector (both by law and by taxing policy) have limited them in size and prevented their growth into the 'lower tail' of the size distribution.

An equally important adaptation has been the increasing reliance on unofficial economic activities. All three parties in the administering have resorted to them. In an economy with so many rules and regulations (Pusic, 1986) which are even mutually in conflict unofficial activities serve to cut through the red tape. Keeping to the letter of the law would cause major disruption in production, close many factories and put many managers in jail. But the great reliance on unofficial activities as a way of operation in an overlord economy has another important consequence; it devalues the civil aspect of society and the credibility of the legal system. The term 'useful lawbreaking and dealing' gained usage.

Of course administrators enter many unofficial activities. Many are for personal gain but the ones which should be included in this section are not entered into for direct personal gain. Of course indirect gain exists, managers appear as skillful negotiators and successful operators, politicians as good defenders and champions of their constituents interests, civil servants can claim success for their rules and maintain them unchanged. For all these activities are primarily designed to maintain and operate an overlord economy, if one stuck to the rules the economy would simply cease.

For areas are especially important for unofficial economic activities by the administrators. They are; in foreign trade, securing bank loans, solving shortages and bottlenecks and negotiating prices and favourable rules.

With an overvalued currency, debt problem, import control and export subsidies and trade deficit in a highly import dependent economy foreign



trade is the natural area for unofficial activities. Foreign currency is traded in 'grey markets' and at 'grey rates' among enterprises, import licences are traded, foreign currency earnings of enterprises are not repatriated in time and spare parts are smuggled by businessmen to avoid the red tape.

With a negative real rate of interest, excess demand for investment and bank loans these have to be distributed by non-market means. The loans are used for investment, covering investment overdrafts, working capital and short term loans for wages to reduce worker discontent and stop strikes. While the former two can be negotiated over a longer period the latter two are needed quickly and at short notice. Apart from the excess demand for loans the economic system which envisages banks as 'financial services' and not business enterprises gives great impetus to the unofficial distribution of loans.

Shortages and bottlenecks other than those related to importing raw materials and spare parts are solved not by markets and prices but by telephone and distribution. This is an area where the bias to bigness becomes especially important.

The negotiation of prices and favourable rules is a very complex area which cannot be dealt with in this paper. The scope of unofficial activities is wide, from creating artificial shortages of basic consumer products to appealing to national interests. The importance can be best summed up in two often used statements; it is not important what your job is but where you work, it is not important to produce but to have favourable 'conditions of production'.

### III. The Welfare Impact of the Crises of the Eighties

In the last resort the success of any economic system depends on its ability to provide the population with a satisfying present and future level of economic welfare. This goal cannot be achieved unless the population has the incentive and ability to supply a productive and efficient labour input. Without this even the best 'grant design' constructions of economic systems and policies cannot succeed. This section will deal with the issue to what extent has mobilized the only abundant resource in the economy, labour, and with the even more important issue what justification is there to expect that labour will supply the labour input necessary to bring the economy out of its present crises. In other words the section will deal with how the economy evolved into a 'low labour performance economy' and what is the possibility of it raising the labour efficiency.

Before analyzing the topic one introductory remark is necessary.

Namely, it seems that the welfare impact of 40 years of building socialism and 35 years of selfmanagement has not been on the agenda of the 'research programme' of Yugoslav economists (or others). Serious research, both theoretical and empirical, on the welfare of the population is minute (and was mainly done by a mathematicians, statisticians and national account specialists). Even such a respected center of empirical research as the mentioned 'Bajt Institute' has not made more than passing remarks concerning the welfare and labour supply of the population.

This is valid for all but one aspect of population economics for the personal incomes of the employed in the socialized sector (i.e. wages, for simplicity) have been studied. But even these entered the research programme by virtue of their relation to other topics which have been in the limelight for over 20 years. For in analyzing the 'operation of the Marxian law of value in a selfmanaged, market socialist economy' some issues related to wages were studied (the statistical dispersion of sectoral average wages weighted in various ways, the transfer of capital income into labour income, distribution according to labour and the results of labour etc.). On the more mundane level the issue of whether 'workers eat their machines' and ways of determining the enterprise wage fund were discussed, for the seventies could be called the era of 'wage fund selfmanagement'. Lastly a much discussed issue was whether workers, through their selfmanaging decisions, induce a wage push inflation. But all these issues were not approached from the point of view of economic inequality, welfare, labour supply or incentive so that the claim that economists in socialist countries have not put the economic welfare of the population into their research programe seems justified.

This state of affairs has meant that economic policy in this sector did not have a sound bias. It had to be based on anecdotal remarks (often inspiring but not rarely wrong), textual margins (relating partial aspects to other topics), ideological and deductive biases (accumulated over a long period) and stylized facts (which were often not supported by serious empirical research). This section will try to show the importance of this omission and to what extent the lack of serious studies and the welfare aspect of the economy can prevent economic policies of even the best design to backfire. In this light three issues will be discussed: (1) the falling expectations of the population, (2) populist egalitarianism and (3) unofficial economic activities designed to allow the population to 'muddle through'.

### 1. The falling expectation of the population

It is, of course, impossible to measure expectations. Questionnaires are

highly unreliable unless they are supported by indirect evidence. In spite of this economic theory attaches great importance to the state of expectations. This section will show that the questionnaires supported with other data quite definitely point to a fall in expectations and that the economy has adapted to this by becoming a 'low labour efficiency economy'.

Questionnaires with data on expected living standards have been conducted since 1977, the latest being published in Sirotic (1986: 3-10). During the period there has been a major shift. Until 1980 just over 10% of adult population expected a fall in the coming year (just over half no change and the rest an improvement). The shifts occur in 1981 and since 1983 over half the polled expect a fall in living standards and under 10% an improvement (Sirotic, 1986:3). The same survey shows that in 1985 of the polled households 61% did not consider their regular household income sufficient while 57% did not consider their regular household income sufficient while 57% did not consider total household income sufficient. When asked to evaluate their own living standards 85% of the households thought it was average or below average (Srajer, 1984b:38).

The perceived fall is in agreement with the statistics. During the crises real incomes and wages have been falling (by 10% in one year) and from their 1979 high they are back to the values of the late sixties (Miljkovic, 1986). In household budgets the importance of labour incomes has fallen (Bozovic, 1985) and unemployment, especially among the young, women and educated (Miljkovic, 1986) significantly reducing the probability for employment.

The demoralization of the labour force can, further, be seen by widespread stealing in enterprises (NIN, No. 1895) or Vejnovic (1984), that only 6% of the employed consider they work the full 8 hour day while 44% estimate that they work less than 4 hours (Djukic-Srdar, 1986:54) and intrafirm differentials are not considered stimulating by 68% of the employed (of which 41% consider that the differentials are unrelated to labour input), see Srajer (1984a: 14). Understandably then the maintenance of living standards is sought through income earned elsewhere.

There is another aspect of falling expectations which must be mentioned. For in spite of the rhetoric and conclusions of political meetings the scope for selfmanagement in the enterprises has been reduced during the crises. Continuously the share of enterprise income left to the enterprise has been falling (Miljkovic, 1986). But while the investment decisions were not taken by enterprises (Long-Term Programme) the enterprises at least had a major part in distributing the wage fund. During the crises even this role for selfmanagement has been eroded through administering (laws, Selfmanaging agreements etc.) Selfmanagement reduced to

'rubber-stamping' cannot be very exciting.

## 2. Populist egalitarianism

Studies in economic inequality always stress that falling living standards increase distributional issues. This has been true of Yugoslavia in all three aspects of distribution: inter-regional, inter-sectoral and inter-personal. Interestingly in all three areas a 'stylized fact' has emerged. All three stylized facts are not proven by serious empirical research and thus seem to be at odds with reality. This section will discuss only the third stylized fact, the one related to interpersonal inequality.

During the crises it has emerged as a stylized fact that social inequality has been increasing while intra-enterprise differentials have been decreasing. The former have attained socially unacceptable proportions while the latter are completely destimulating. Furthermore the rising inequality is not based on labour incomes and is hence unjustified by the ruling principle of economic justice. The above stylized fact is expounded by politicians, supported by marginal remarks and some research of economists and accepted by the population (at least as far as population surveys show, see Markovic (1984: 3-10) or Srajer (1984a)). As for the research of economists it is found wanting in many aspects (Bicanic, 198). Data not suitable for studying inequality is used, it is recalculated along unwarranted ways, dispersion and inequality measures are mixed up etc. For it seems that state-of-the-art empirical research (the current research of the author) definitely does not support the populist egalitarian stylized fact in any aspect but one: intra-enterprise differentials have fallen.

Since 1963 (and the first household survey done by the Statistical Office) income inequality has gone through two phases. One of large change (a major rise from 1965 to 1970 and a fall with a minimum in 1973) and one of small changes (a rise till 1979 and a small decrease since then). Since the mid seventies the level was almost unchanged and had values similar to the pre-1965 ones. This is valid for income inequality of all households and urban ones as well as the inequality of wages. The same changes took place at different levels for the various regions. The more developed regions had lower values of inequality measures during the whole period and for all types of households. Comparing the inequality for various types of households certain patterns emerge on the national level and on the level of all regions but one (the most developed one). Thus inequality levels of urban households follow in size and change overall inequality. Rural inequalities are significantly smaller and show very small changes. Among the rural households mixed ones show the same direction of change as the urban ones but the changes are of a smaller magnitude. The agricultural

households have inequality levels somewhat above that of mixed ones but the direction of change is opposite. In international comparisons inequality levels in Yugoslavia since the middle seventies are low. This is valid also for inter-occupational differences and for many inter-occupational differences. To complete this brief survey the correct part of the stylized fact must be included: intra-firm differentials are low (for example Sefer, 1982) and are quite correctly perceived as such (Srajer, 1984a: 11-20).

The described changes in economy do point to the successful (if mis-oriented) influence of economic policy and the egalitarian bias. The one increase of inequality in the late sixties was quickly and efficiently reduced in the early seventies and regular agreements on incomes policy has, together with campaigns against inequality, successfully kept the levels low. Equally, the policy towards private agriculture is reflected in the inequality measures which are low and show small changes. Thus while being incorrect in its estimation of economic inequality populist egalitarianism is successful at keeping social inequality low by national standards as well as international ones.

### 3. The stabilizing effect of unofficial economic activities

As has been seen the population has during the crises been subjected to great economic difficulties. Falling real incomes eroded 20 years of development, rising unemployment, low inequality, falling share of labour incomes, insufficient regular and labour incomes are connected with falling expectations, lack of incentive and opportunity to work and populist egalitarianism. The only valve open for a 'muddling through' the crises and decreasing the welfare loss of the population is the unofficial economy.

But the unofficial activities which became important during the crises are not those connected to a boom: employment in industry and services. These are unofficial activities connected to agriculture and in that sense reflect a backtracking of development.

The unofficial activities involved are related to the increased importance of mixed households and their agricultural income, the increased reliance of urban households on relatives in rural areas and direct purchase from the village as well as the somewhat less important part-time gardening by urban households.

Mixed households are an important feature of the Yugoslav economy. They have about 30 to 40% of arable land (*Ekonomska politika*, No. 1374) and include about every third household. They can change the area under cultivation from year to year depending on relative prices, they can also shift labour between industry and agriculture and thus represent very elas-

tic producers. Also they are irregular surplus producers and tend not to specialize (Cvjeticanin and Dilic, 1978: 135-44). Their activities are part of the unofficial economy because they retail through unofficial channels and take sick leave or are absent from work during the top agricultural season (most enterprises report a disruption of production during these times, see Bicanic (1987)). To what extent the increased number of agricultural holdings and fall in the average size of plot is due to mixed households and their increase or to the rising number of pure agricultural households is impossible to tell from the statistics but certainly this, in European terms a-typical development is induced by the crises.

Since most of the urban population moved into towns within the last decades many of them have relatives in the rural areas. With falling real wages an increasing number of products is passed on from the rural relatives. Usually these are foods, most often meat and vegetables of the season and since two thirds of the average budget was spent on food this is an important source of implicit earnings. Only 35% of households do not get or produce any food of their own (Maroevic, 1985:30).

It is obvious therefore that unofficial economic activities have greatly eased the fall of living standards. In relation to this and other unofficial economic activities and interesting thesis was presented by a sociologist, see Zupanov (1986). He suggested that the crises has formed a detente between the administrators and the those they administrate over. The latter are permitted to enter unofficial activities and muddle through the crises as best they can provided that they do not question the power of the former. The social stability, in spite of the countries severest crises so far seems to indicate that the thesis should not be dismissed immediately, indeed it may even help in explaining the cause for the rising number of strikes in 1987 and the fact that they are not related anymore only to issues of money wages and intra-enterprise differentials.

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