Yugoslavia: Hard Times [redacted]

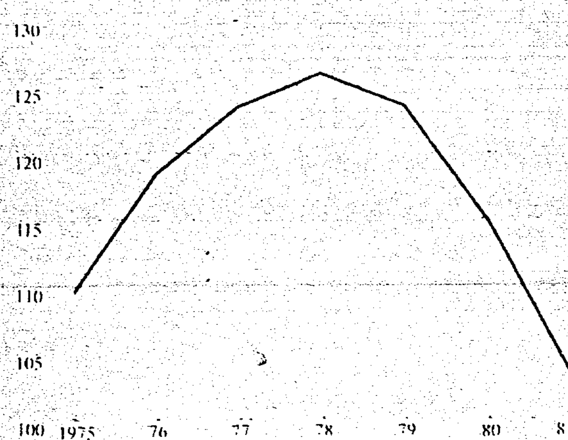
Yugoslavs have been battered for several years by falling real incomes and shortages of consumer goods, and rising unemployment has recently been added to their list of grievances. So far, the public has confined itself mainly to grumbling. Because of economic and financial constraints, Belgrade will not be able to resolve these problems in the near term and the chances for sporadic outbreaks of violence will grow. [redacted]

The Good Life Ends

During the 1970s, Belgrade stimulated the economy with loose monetary and credit policy and relied increasingly on foreign credits. These policies led to rapid economic growth and improved living standards. Yugoslavs traveled abroad more frequently, bought more automobiles, and grew accustomed to relatively well-stocked stores. By 1978 the real income of a four-person household was 26 percent above the 1970 level (see figure). At the same time Yugoslavia started to experience widening current account deficits, accelerating inflation, and a growing foreign debt burden, the consequences of its prodigal economic policies. [redacted]

Yugoslavia: Trends in the Average Monthly Income of a Household of Four

(1970 = 100)



[redacted]

Beginning in 1979 Belgrade tried to improve the situation by tightening monetary and fiscal policy. These restrictions had little remedial impact on the problems, but helped cause a fall of 2 percent in real income for the average family. By 1981 the same household's monthly income had fallen 18 percent from its 1978 level. Figures for 1982 are not available, but a further decline certainly occurred and probably erased the rest of the gains in earning power made during the 1970s. [redacted]

Belgrade was able to reduce the current account deficit only by cutting imports, which led to shortages of some commodities. Coffee and crude oil imports, for example, fell by 53 and 19 percent, respectively, between 1979 and 1982. Coffee almost disappeared from stores, and gasoline is now being rationed. Other shortages created by import cuts include detergent, medicine, and fruit. [redacted]

Belgrade turned to price controls on several occasions when monetary and credit policies failed to bring down the inflation rate. Even with the controls, however, the Yugoslavs could not meet their inflation targets. Inflation accelerated from 20 percent in 1979 to 41 percent in 1981. The inflation rate fell in 1982 but only to 32 percent. Moreover, the controls worsened shortages of domestically produced goods. Producers either discontinued production of unprofitable products or built inventories, anticipating higher prices after the controls were lifted. [redacted]

[redacted]

The Unequal Impact of Austerity

Belgrade's attempts to stabilize the economy have not affected all groups to the same degree. Strains between income groups, generations, ethnic groups, and so forth are likely to increase as each group tries to ensure its living standards do not suffer relative to the other groups [redacted]

The composition of the unemployed [1] shows that the young carry a disproportionate share of increased unemployment. Fifty-three percent of the unemployed are below the age of 25, and 70 percent are without work experience and have been waiting one to three years for a job. In addition many university graduates have unemployable skills and cannot find jobs of any kind, let alone ones that meet their expectations. Concentration of unemployment among youth, particularly in urban areas, makes rising joblessness a potentially explosive political and social issue. [redacted]

The problems of rising unemployment, falling real incomes, and growing shortages are not shared equally among the republics. Unemployment, as measured by the proxy rate, is much higher in underdeveloped areas: for example, Kosovo's rate is 27 percent compared to less than 2 percent in Slovenia. Energy shortages have hit Macedonia hardest; the shortfall there is 30 percent as against 10 percent for the rest of the country. Per capita incomes vary considerably between republics with Slovenia's per capita income 6.6 times larger than Kosovo's. [redacted]

The Response

So far consumers have only grumbled about the worsening conditions. Several isolated incidents, however, reflect the population's growing frustration with shortages and falling real incomes. In mid-February workers in a textile factory in Zagreb, Croatia, staged a two-day work stoppage and demanded a 40-percent increase in wages. At the same time in Titograd, Montenegro, consumers broke windows and looted stores after learning there was not enough detergent. A similar incident was reported in Celje, Slovenia, in late January, as consumers queued for coffee. [redacted]

[1] Official Yugoslav statistics, comparable to Western measures of unemployment, are unavailable. [redacted]

Groups that are usually supportive of government policy are becoming critical. The quasi-official Yugoslav trade unions oppose wage controls and broadened rationing that would include necessities. Union leaders are complaining that the supply of some foodstuffs is poor even though the country had a good harvest; these officials demand that the names of those responsible for the situation be made public. Discussion at last year's Youth Federation Congress indicated concern that a disproportionate share of the burden for past mistakes has fallen on the young. Officials were criticized for opulent life styles while the public's needs for housing and jobs were not being met. [redacted]

[redacted]

[redacted]

Belgrade is worried about the growing number of complaints, but financial difficulties force it to call for additional sacrifices. Measures introduced in October, including gasoline rationing, stiffer restrictions on electricity use, and foreign exchange controls, signaled worsening conditions for consumers. Despite union resistance, local rationing is being introduced for some scarce consumer goods. The 1983 economic plan calls for a 7.5-percent fall in personal income. Large price increases were recently approved for a wide variety of important items and will probably push the cost of living index up 15 percent in the first quarter of 1983. [redacted]

The regime cannot stop the slide in living standards but is taking some actions—price hikes, rationing, and increased imports of consumer goods—to improve the supply situation. New CCC credits from the United States will be used to finance higher levels of agricultural imports, and crude oil imports are to increase by 5 percent in 1983. The government approved a measure that would allocate $1 billion in hard currency for imports of products in short supply. These actions, however, cannot go too far without jeopardizing balance-of-payment goals. Despite Belgrade's efforts, shortages of many goods and inflation will continue to plague consumers. [redacted]

Outlook

Consumers have watched the standard of living fall for four consecutive years, and yet the same economic problems—current account deficit and high levels of inflation—remain. Consumers' frustrations will continue to grow, and their passive acceptance of the continuing fall in living standards will become less likely. [redacted]

Worsening conditions will exacerbate strains between ethnic groups and republics. Policy measures that address Yugoslavia's economic problems will inevitably hurt one group more than another. In addition, we believe the less developed areas are likely to suffer the most from the economic slowdown. [redacted]

The balance-of-payments problems will force Belgrade to continue austere economic policies regardless of consumer attitudes. Belgrade could opt for higher imports if it obtains all of a proposed financial rescue package from a combination of Western governments, IMF, the Bank for International Settlements, and commercial banks. But higher imports would jeopardize future international financial support and would be only a temporary respite for the population. [redacted]

[redacted]

[redacted]