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SUB-COMMITTEE ON SOVIET ECONOMIC POLICY

THE YUGOSLAV ECONOMY AND RELATIONS WITH THE WEST

Comments on AC/89-WP/182 by the United States Delegation

A. General Comments

We are in general agreement with the broad trends outlined in this paper and the conclusions expressed in paragraphs 54-68. We would, however, modify or give greater emphasis to the following points :

Paragraph 54: We would emphasize that the reforms of 1965 are steps in the right direction but that much depends on whether they are carried out fully. So far, very little has been done to reduce extensive government control over prices and imports. Nevertheless, the Yugoslav economic reforms of 1965 can hardly be compared with the cautious steps being taken in other Eastern European Communist countries: for more than a decade Yugoslavia has had an economy with market and decentralization features that go far beyond what other communist countries are now trying out or apparently even contemplating.

Paragraphs 56-57: The extent to which the Yugoslav regime has relinquished its power appears to be exaggerated. Although detailed central planning of economic activity has long been abandoned, the regime has continued to exercise considerable influence over the rate and pattern of economic growth through its control of prices, foreign trade, investments, and income distribution as well as through monetary and fiscal measures. Under the new reform, substantial control is intended to continue, with reduced direct intervention by the state and much greater reliance than in the past on indirect controls.

Paragraph 60: In our view, the reforms of July 1965 were primarily institutional and, taken by themselves, were inflationary in the sense that (1) price reform meant a deliberate increase in the general level of prices and (2) devaluation of the dinar ordinarily would have a stimulating effect on production and trade. The deflationary measures were taken earlier, in October 1964 and March 1965. Although they may be regarded as prerequisites for the reforms of July 1965 and steps yet to be taken toward liberalizing control over prices and imports, these deflationary

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measures were a good idea - and probably would have had to be introduced - apart from any plans to reform the system. The overall decline in living standards from 1964 to 1965 appears to have been small and partly inadvertent. The deflationary measures were intended only to slow down the rate of growth and were aimed primarily at investment expenditure, although consumer credit also was made more difficult to obtain. Plans to maintain living standards were upset, however, by (1) a 7-percent decline in agricultural production as a result of unfavourable weather, (2) the caution of many enterprises in raising worker's incomes because of the uncertainties surrounding the reforms, (3) the impact of higher food prices and restricted consumer credit on the ability of consumers to buy industrial goods, and (4) a sharper reduction in the import surplus in 1965 than the regime perhaps planned at the mid-year.

Paragraph 63: Economic assistance from the Socialist countries also can take, and is taking, the form of long-term credits and rescheduling of repayment of Yugoslav indebtedness, primarily from the U.S.S.R.

Paragraph 66: To the best of our knowledge, the recent reforms were conceived and are being pushed by the same group of men that has been governing Yugoslavia throughout the postwar period.

B. Specific Comments

Paragraph 2: A Soviet-type economic system was not adopted for the specific purpose of postwar reconstruction and industrialization but rather because Marxist doctrine and Soviet experience and influence made it an inevitable choice for a Communist regime at that time.

Paragraph 5: We believe that failure to reach the economic goals for 1951 must be attributed almost entirely to the break with the Soviet bloc and the upsetting initial effects of economic reforms.

Paragraph 9: It is difficult to see any favorable effects of workers' management on the growth of production until the middle and late 1950's, and even then its rôle is not clear. In the early 1950's, workers' councils were merely introduced experimentally in certain enterprises subject to considerable (though diminishing) state control. The general trend in production from 1949 to 1952 was downward.

Paragraph 12: Although more balanced than the plan for 1947-51, the plan for 1957-61 still showed a pronounced emphasis on industrialization. The growth rate mentioned for agricultural production exaggerates the improvement because 1956 was a below-average year.

Paragraph 15: The devaluation of the dinar (from a system of multiple rates based on a value of 632 dinars per dollar to a "uniform" rate of 750 dinars per dollar modified by import tariffs and export premiums) preceded rather than followed the slowdown in economic growth in the latter half of 1961 and the first half of 1962. This temporary slowdown appears to have been the combined result of institutional reforms in early 1961, the decline in agricultural production in 1960 and again in 1961, and anti-inflationary measures taken in 1961.

Paragraph 20: Social control over many prices, administered by a Federal Price Office (forerunner of the Federal Price Institute), dates back to 1958. Control had become more widespread by 1962-63.

Paragraph 22: By the end of 1965, the intention of having a plan for 1964-70 had definitely been abandoned, and a preliminary draft of an ambitious plan for 1966-70 (not yet approved by the Federal Assembly) was being publicized.

Paragraph 23: It is true that the Yugoslav leadership has tried to reduce dependence on foreign countries through a broad development of the economy, especially of manufacturing industries. At the same time, it has not tried to avoid the dependence that comes with rapidly increasing foreign trade and heavy reliance on foreign credits.

Paragraph 24: Although Yugoslavia's autarchic tendencies probably had something to do with the break with the Soviet Bloc, other considerations seem much more important, especially Tito's independent attitude and political ambitions in the Balkans and the Soviet desire simply to exploit the economy rather than dictate its pattern of development. Continuing Soviet influence did not prevent rapid industrialization in Bulgaria and Rumania during the 1950's.

Paragraph 25: Western countries were at first rather suspicious of the break between Yugoslavia and the Soviet bloc, and their relations with Yugoslavia improved only gradually and hesitatingly. The release of Yugoslav gold by the United States followed Yugoslav agreement to pay nationalization claims and other debts to the United States. Yugoslavia did not receive aid under the UNRRA program after mid-1947. During 1949-52 the United States provided some emergency relief and Export-Import Bank credits and initiated programs of economic and military assistance under the Mutual Security Program and Public Law 480.

Paragraph 31: The trade deficit was reduced considerably in 1965, to about \$200 million.

Paragraph 32: We suggest rephrasing the first sentence to indicate that the trade deficits usually have considerably exceeded net earnings from services and private transfer payments, leaving sizable deficits that were financed mainly by grants and credits from the United States, Western Europe, IMF and IBRD.

Paragraph 35: Yugoslavia applied to become a full member of GATT as soon as possible.

Paragraphs 41-42: In our view, it was not a question of preventing the collapse of the economy or of coping with crisis but of trying to make it function somewhat more efficiently, bringing inflationary pressures under reasonable control, and thereby creating conditions under which administrative interference in the economy could be reduced.

Paragraph 43(f): "Scesawing" does not appear to be an appropriate term here, whatever facet of development is referred to. A rate of growth in agriculture consistently lower than that in industry is fairly normal and not symptomatic of crisis.

Paragraph 45: The inflationary process was not started in 1964 but was clearly intensified at that time.

Paragraph 53(b): It is not our impression that the reform was intended to depress real wages for the labour force as a whole or that its success depends on this. See comments on paragraph 60 under "General Comments".

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