

# PRICE SYSTEM AND POLICY IN YUGOSLAVIA

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Increased production accompanied by shifts in the pattern of the economy and attempts to further the development of socialist social relations, have brought about many changes in the country's life and have necessitated, and allowed for, profound reforms and improvements in the economic system. Within these reforms a prominent part has been played by alterations in price relations.

The main changes in the economy and the economic system which influence price formation are seen in three fields: production, distribution and exchange and market relations. However, a thorough and correct study of all these problems requires a preliminary survey of the situation in the prewar and postwar periods.

## Price relations before the war

In the period between the two wars the formation of prices was chiefly determined by the following factors: the level of economic development, particularly of agriculture and industry, the character of social relations, and the conditions prevailing on the world market. State intervention by capitalist cartels in Yugoslavia began to play the major role in changing the "liberal" formation of prices only after the great world crisis. Before the First World War the greatest part of the territory of what is now Yugoslavia was virtually any *without* industry, exports being chiefly accounted for by agricultural and mining products. Hence spontaneous formation of prices logically meant higher prices for industrial commodities and on account of protective customs tariffs, but also due to the fact that these goods, unlike agricultural produce, were chiefly imported, the formation of their products was also influenced by transport cost and the trade network margin. On account of this, before the First World War price relations in what is now Yugoslavia were relatively more

unfavourable for agriculture than in Western Europe. If we take the general level of wholesale prices in other countries as 100, the relation between the prices of industrial and agricultural products in Yugoslavia was 110 : 80, i.e. the prices of agricultural produce were 30 per cent below those of industrial commodities.

Bearing these factors in mind, one can further analyse the trends in prices in the period between the two wars.

**Table I**  
Wholesale prices 1913—1966  
(1913 = 1)

Year	Agricultural produce				Industrial products total	Level of agricultural prices in relation to industrial prices per cent
	Crops	Stock	Level of stock prices in relation to crop prices per cent	Crop & stock total		
1913	1.0	1.0	—	1.0	1.0	—
1923	21.2	18.6	—12.3	20.0	31.3	—36.0
1928	18.9	16.8	—11.2	18.0	16.6	+ 8.5
1933	8.3	8.8	+ 6.5	8.6	12.0	—29.7
1938	12.5	10.2	—18.4	11.5	13.2	—13.4
1940	20.0	14.9	—27.0	17.8	18.7	— 5.0
1948	45.8	31.7	—30.3	39.1	37.0	+ 5.6
1953	243.0	175.3	—27.9	212.8	216.9	— 2.0
1958	289.6	254.1	—12.4	272.8	228.5	+19.1
1960	292.5	276.5	— 5.7	284.5	233.4	+21.8
1963	441.7	388.5	—12.0	418.2	243.7	+71.6
1965	792.7	671.9	—15.3	771.0	294.8	+161.5
1966	835.5	846.6	+ 3.2	838.3	326.2	+257.0

*Data:* For the period 1913—1940 index of prices of the prewar "Privredni pregled" (Economic survey) and the National Bank of the Kingdom of Yugoslavia; for 1948 and 1953 author's computations; and for 1958—1965 data of the Federal Statistical Institute. The year 1913 has been taken as the initial year for showing the changes in prices relations, not as a criterion towards which to aim.

The above figures show that the position of agriculture in exchange, except for the short-lived boom between 1928—1930, continued to deteriorate, primarily as a result of relatively lower prices of livestock products. A certain improvement on the eve of Second World War was of short duration, and was cancelled by the aftermath of the war. The advantages of the boom which followed the First World War as a result of general shortage of goods, were felt only in industry and building construction.

It is also interesting to note that as a result of the changes in price relations after the First World War the purchasing power of Yugoslav agriculturalists dropped by 10 per cent as regards the means of production and by 50 per cent as regards consumer goods. This was at a time when Yugoslavia was considerably below European level, which was itself unfavourable.

Further changes in price relations were considerably influenced by the great world crisis through foreign exchange of trade and the "cartelization" of industry. With the year 1931 the so called free formation of prices in Yugoslavia had gone forever. There was a drastic drop in the prices of agricultural products as a result of difficulties on the market, while the imported goods (primarily textiles, leather, and petroleum) kept at level above the average. As early as 1931, nearly 50 per cent of the entire industry began secretly to cartelize in order to defend its interest, while after 1936 this was done openly and publicly. In this way industry succeeded in retaining almost the same level of prices.

Table II

Changes in relative price relations in Yugoslavia at the time of world crisis

	Year	
	1932-36 per cent	1938 per cent
Industry — total .....	+16	+ 8
cartelized industry .....	+40	+31
Agriculture — total .....	-13	- 5
crops .....	-12	+ 3
livestock .....	-14	-18
Imported goods .....	+16	+ 7

N. B.: General level of wholesale prices = 100. Deviations are given in relation to general index of wholesale prices with 1926 taken as a base.

The "free play of market factors" prevailing until then and supplemented by the intervention of cartelized capitalist industry, was not disturbed half-measures aimed at intervening on the market of agricultural produce, so that the position of agriculture, particularly livestock farming, continued to deteriorate in comparison with the 1926 level. Consequently these price deformations left their visible traces also on price relations in 1938, so that the latter cannot be considered as normal even for the conditions of a capitalist economy. It is evident that price relations abroad suffered from similar deformations, which only supplemented those already existing.

### Fundamental characteristics of price formations (1945—1965)

*Period of administrative guidance of the economy (1947—1951.)* The socialization of the economy and the concentration of all available resources of the national economy in the drive for industrialization, required a planned distribution of income as well as an adequate price system. In addition, it was necessary to remove the prewar deformation in price relations and also to pay attention to some purely social postulates. On account of this, state inter-

vention played an outstanding role, as regards both the building of a completely new system of prices and the objectives of price policy. In industry a system of price formation was introduced which was based on the average cost of production and planned accumulation, and as regards exchange with village, so called "linked prices" for industrial and agricultural commodities were introduced with a view to stabilizing and accentuating the improved economic position of agriculturalists. The state also intervened in the establishment of service prices.

The effect of the administrative formation of prices on the parity of industrial and agricultural prices was to keep the prewar price scissors (which

**Table III**  
Rates of accumulation and funds in Yugoslav industry

	1938	1950—51	1952—53	1955	1960	1965
A) Basic .....	104	111	497	372	328	217
B) Manufacturing .....	205	370	643	520	326	205
Total industry .....	191	217	556	432	327	206

*N. B.:* The rate of accumulation and funds (accumulation and social funds divided by the wage and salary fund) is analogous with Marx's rate of surplus labour, but is not identical with it since the wage and salary fund does not include supplements and contributions for social insurance. The system of rates of accumulation and funds existed only in the 1952—53 period, but in the above Table the rates were computed for comparison's sake for other years too.

amounted to 13.4 per cent to the detriment of agriculture) on the whole closed, i.e. to create a situation similar to that in 1913. This policy was in conformity with the wish to ease the economic and social position of agriculturalists (writing off peasant debts, Agrarian Reform, etc.).

There were also changes in industry, primarily on account of the allocation of accumulation. The changes were a result of uniform and much more realistic accounting of depreciation, of the removal of the anticipated, fictitious increase in production cost on the part of private capitalists (for the sake of decreasing tax assessment), and finally of better use of plant and decrease in overheads per unit of production.

In 1938 cartelized industry increased the level of prices by about 31 per cent. In the period 1950—51 this advantage was reduced to 8 per cent through a rise in the rate of accumulation in manufacturing industries (which can more or less be compared with non-cartelized industry).

In 1948 agriculture had a position relatively similar to that of 1913, which was a considerable success in view of the many years of unfavourable price relations in exchange (see Table I). This correction was, however, not complete since livestock farming did not profit from it but its position even

deteriorated to a certain extent. The parity of cattle prices (for 100 kg of live weight, taking the price of the same quantity of wheat as 100) amounted in 1938 to 296 and in 1948 to 207. It was only in 1954 that it reached a figure of 411 (which was still under the necessary level of about 430), but in 1964 it rose to 500. Only after 1954 did livestock farming begin to show a rise in production.

However, the price policy in the early years of planned development still led to a more real valorization of agricultural produce, and thus to more correct relations in the pattern of income, which in itself contributed to the removal of fundamental deformations and uncontrolled trends inherited from the capitalist economy. From this point of view, apart from the latest changes in price relations, which have been put into effect since the beginning of 1961, the price parity policy pursued in that period could be considered as the most correct solution. However, as part of the mechanism of exchange, administrative formation of prices had two fundamental shortcomings: firstly, it did not allow for the necessary flexibility in a very dynamic economy, and in this connection for the creation of conditions allowing more initiative on the part of working collectives, and for the development of workers' management; and secondly, it presupposed a practically untenable system of "frozen" price relations in an economy in which agriculture accounted for a high proportion of income and was anyhow subject to serious fluctuations in production.

*Transition to a market economy.* Regardless of the continuity and uniformity of objectives of economic policy, which have characterized the entire post-war development, 1952 marked a transition to a new system of business. It was necessary to give economic organizations freedom to operate on the market, i.e. primarily to reconcile commodity-monetary relations in conditions of serious material disproportions. At the same time it was necessary to secure efficacious accumulation. This was not an easy task under conditions of an agriculture made up chiefly of smallholders, which could not be subjected to the direct planned distribution of income, particularly in view of the evident need for improving the standard of living in the village. For this reason both the price system and relations were changed and taxing of accumulation was done mainly in industry and socialized activities in order to maintain an adequate distribution of national income. The development of the level of prices on the free market up to 1952 indicated the line of possible changes.

On the whole, accumulation in industry increased rapidly and the position of agriculture in exchange was brought to the level it had immediately before the Second World War. High prices of industrial goods and low prices of agricultural produces constituted a special method of accumulation where the tax on income from agriculture lost much of its meaning. In 1951 this tax amounted to 16 per cent of income and in 1953 to 7 per cent although the level of output was in both years the same.

The necessity to maintain certain proportions between personal consumption and accumulation and rather unstabilized market, imposed a policy of fixed personal incomes in socialized production. Guided by economic and political objectives, i.e. striving to increase production and productivity and foster socialist relations in towns and villages, the social community continued in this period to play a strong role in price policy. However, in spite of this, economic organizations were given relatively greater freedom in business.

The level and relations of prices of agricultural produce were not so much based on the calculation of production costs and the accumulation necessary for the advance of production, but rather on social and economic aspects, primarily in connection with the policy of national income distribution and the advancement of socialist relations in the village.

The transition to "economic" prices was not thoroughly and everywhere carried out. The prices of services remained in most cases on a lower level (transport, rents, and some artisan services). As a result, it was necessary either to subsidize producers or consumers or to give the enterprises and economic branches concerned various exemptions from taxes and some contributions to the community. These specific degressions from the general system of prices added more obscurity to the basically justified price parities.

Even under these conditions, the system of freer formation of prices, which could be economically justified, had its advantages. Economies started with fuel and raw materials, producers' hidden reserves and commodity stocks were mobilized, and the free initiative of economic organizations stimulated.

*Prices in the new economic system* (period 1952—1956). As a result of the blows suffered by the economy because of foreign political difficulties and adverse weather conditions, the execution of envisaged key industry schemes in the period 1947—51, and some new projects initiated in the meantime, was delayed beyond 1951. These additional efforts deferred steps for an intensive expansion of agriculture, and were reflected in the foreign trade balance of payments (imports of food). Disproportions between the rise in industrial and agricultural output were particularly conspicuous after 1953 when the results of industrialization were rapidly growing. In such circumstances an increase in prices of agricultural produce was inevitable, not only as a result of market relations but also as a condition for increased production. For this reason after 1954 there were instances of planned increases in some agricultural prices, which was the first material stimulus given to agricultural producers.

In the period 1952—56 price disparities in relation to the general level of prices and the needs of the normal course of production were pronounced, and the dynamism of price relations was very great. These changes were primarily caused by powerful expansion of production, which broke and rapidly changed existing proportions, and by balance, though only financial, achieved on the market, though this required either additional imports or administrative

intervention. Another factor responsible for this situation was the development of the economic and communal system, which by decentralizing decisions made allowance for initiative from below and sometimes made it difficult to keep the planned proportions and to preserve the stability of the market. The influence of the foreign exchange system was primarily only a reflection of internal material disproportions, but in further development, after 1952, it became itself a factor which caused the differences between external and internal prices, which were now increasingly used to alleviate the adverse balance of payments, contributing thus to a further extension of price disparities (Table IV).

Table IV

Indexes of prices of goods and services for personal consumption  
(1947 = 100)

	1939	1950	1955	1960	1965
Food .....	22	250	339	319	715
Tobacco and beverages .....	42	204	364	481	378
Industrial products .....	34	120	650	637	904
Rents .....	147	100	262	730	1157
Fuel and lighting .....	44	168	295	439	906
Personal services .....	29	88	300	374	667
Cultural needs .....	33	191	309	344	688
Total ( <i>goods and services</i> ) .....	34	200	368	468	895

From the point of view of the development of society any further strengthening of the system of administrative direction of the economy had a potential danger of bureaucracy which would have sooner or later hampered the initiative of direct producers and citizens in their capacity of policy makers. It would thus have a bad effect on further development. For this reason institutional measures aimed at the creation of a free market and a different system of income distribution, with the simultaneous maintenance of rapid rate of development and the accepted social postulates of the newsociety, constituted an inevitable economic and organizational precondition for workers' management. In principle this bold development of new relations in production and distribution did not collide with the fast rate of economic expansion, but with the level which this development had reached by that time and with the disproportions in the pattern of the economy, which disproportions, together with foreign difficulties, checked the increase in output of goods in short supply and through it also the formation of lower prices. Finally, the fact, too, that the economic system was not fully elaborated and was introduced under the difficult conditions of the pre-expansion period, sometimes also proved an obstacle to better and more lasting solutions of some problems of exchange.

Under conditions of ever increasing decentralization of the economy, deformed price relations were highly undesirable. Having come into being, these prices were becoming increasingly firm criteria in business and in social life. The negative effects of such relations were basically fourfold.

Firstly, unrealistic calculations (due to disturbed price relations) in some cases led to inadequate choice and waste of material for production and power in production. Secondly, investment criteria being blurred, they did not always allow for the best decision on the part of the community. Thirdly, in foreign trade there were cases of commodity exchange which essentially meant a reduction in the level of national income already achieved. Fourthly, the mass of individual consumers, in conditions of deformed prices and lack of firm system of distribution, sometimes influenced production branches to develop in a direction which, in relation to the level of economic development achieved, led to a hypertrophy or a lagging behind of particular branches of production and other social activities.

The coherent character of the system, and abiding by the fundamental economic and political objectives of the price policy, under conditions of deformation, was reflected also territorially because of the varied pattern and the level of development of individual parts of the country.

All these problems were gradually realized in their full magnitude since economic life itself showed the illogical features of some prices in various sectors of exchange. However, it was only as of 1956, i.e. after certain definite results in the building of key industries had been achieved and after a course had been taken towards a faster improvement in the standard of living, that it was possible gradually to start solving these problems.

It was possible to a certain extent to remove the negative effects of deformed price relations through administrative intervention in decisions concerning investment, i.e. by relying on social factors, but such methods were often incompatible with the necessary automatism and freedom of decision on the part of economic organizations, which make the groundwork of the economic system. However, even for administrative decisions there were not enough criteria. Price relations from 1938 did not suit the situation (nor did the price relations abroad). Hence, viewed from this standpoint, there was only one correct course: to normalize price relations primarily through increased production, or rather to put on the market more goods in short supply, and to reconcile these relations with the level of economic development, the organization of the economy, and with social relations in the country.

*Beginning of the normalization of price relations (period 1957—1965).* The gradual removal of disproportions in the pattern and price relations in general was one of the essential conditions for the improvement and strengthening of the market mechanism within the framework of the economic system, or rather for the realization of the planned development of the economy.



These changes were gradual and in conformity with material possibilities so as not to disturb the stability of the economy and the normal course of reproduction. In 1957 it was possible to see the problems in their entirety and to formulate the basic lines of action, which have been carried out in the course of the last four years.

Important changes were made then as regards the valorization of labour in the price structure. A contribution for housing construction was introduced,

**Table V**  
Price level in 1952—1965  
(1960 = 100)

Year	Producers' prices		Retail prices		
	Industrial products	Agricultural produce	Industrial products	Agricultural produce	Services
1952	95	67	94	56	40
1956	97	86	94	87	61
1960	100	100	100	100	100
1965	126	260	151	250	176
1965 : 1952	132	388	160	446	440

Data: Federal Statistical Institute.

some subsidies were abolished (e.g. for food and transport) and the wage and salary fund went quantitatively up. Simultaneously with a rise in the standard of living the prices of some communal and other services were raised to a level which better met the needs of simple reproduction. Changes were made also in the regime of fixed capital and in functional delimitation of calculating expenses (separation of investment maintenance from depreciation). Material expenses were more clearly defined, subsidies were changed, particularly in agriculture, in conformity with increased possibilities for economic organizations to create their own resources for financing production, etc.

The improvement in material and financial possibilities in agriculture, expansion of collaboration between peasant cooperatives and individual smallholders, and the development of new relations in production and income distribution with a corresponding improvement in the trade of peasant agricultural cooperatives, have made it possible for agricultural prices to be formed on the basis of expense calculation. All these measures have contributed to changes in price relations.

These changes in prices are partly a result of the market factors (although they are founded on the planned production orientation and the system of income distribution) and partly a result of the policy of changes of certain

prices. Particularly since 1957 the prices of agricultural produce have been growing at an accelerated rate owing to a disharmony between supply and demand, although since 1954 there have been some planned changes in prices. The prices of services have been going up through planned increases in conformity with higher incomes of consumers. Consequently the effect of the changes in prices, although made in a relatively short period, has been considerable.

It is characteristic that in the course of 1960 price relations corresponding to backward agrarian countries were to a great extent done away with, which led to relatively equal conditions of exchange in agriculture and industry. Another important element was the relation of prices of crops and livestock products. With the exception of two or three years, unfavourable price relations for livestock farming lasted nearly five decades, and only in 1960 did they approach economically justified relations. It is interesting to note that not even the year 1948, which substantially changed the general situation in agriculture, could produce the results which are now being achieved as a consequence of the level of economic development, and a full understanding of the roads which price policy in agriculture should continue to follow. These changes are an essential turning-point in the principles of, and in a practical approach to, the price policy concerning the prices of agricultural products.

Price parities from 1947, which are marked by the least price disproportions, show — broken down by three main groups of personal consumption — the following trends.

**Table VI**  
Price parity of personal consumption 1947—1965

	1947	1952	1960	1965
Foods, tobacco and drinks .....	100.0	88.3	94.7	88.0
Industrial products .....	100.0	239.0	135.6	101.0
Services (personal and cultural) .....	100.0	73.2	78.2	75.1
General price level .....	100.0	100.0	100.0	100.0

Viewed from the situation prevailing in 1947, although that year cannot be considered as a model one, the development of price relations have been tending to normalize. From available figures it can be concluded that in the future policy should be directed towards a further improvement in prices of agricultural produce, a decrease in prices of industrial products, and an upward correction of the prices of services.

Simultaneously and in conformity with these internal changes there have been changes in the foreign trade exchange system. The tendency was to diminish the great span between coefficients (whose purpose was to level off the discrepancies between external and internal prices) and gradually to relinquish

the system of manifold foreign exchange rate. Thus the former accounting rate of exchange has been changed from 632 to 750 dinars to 1 US dollar. These changes helped home production to find its real place in the international division of labour.

*Economic reform of 1965 and price policy.* Among its other, much important aims, the economic reform of 1965 brought such changes in price relations which in an important measure offer possibilities to solve the open problems described above. These corrections improved further the economic position of agriculture and services.

The general level of prices was raised by 24 per cent, industrial products by 14 per cent, agricultural produce by 33 per cent, and services by 40 per cent. So the existing disparities of prices became narrower than before, although the whole process is not yet finished. At the same time the exchange rate was raised up to 12.5 new dinars for 1 US dollar (1 new dinar equals 100 old dinars). This method of consolidation and price relations was at the same time the method of economic stabilization, particularly by achieving the balance between the production and the consumption.

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A general survey of price formation in Yugoslavia in the last 50 years shows all the problems with which the economy has had to struggle in the field of material production, as well as the repercussions of the prevailing social-economic system. This is particularly true for the postwar period which has been marked by an extraordinary dynamism of price levels and price relations. The processes described above are still going on in conformity with the level and objectives of economic and social development. Regardless of changes announced, aimed at improving the system of business conditions and at facilitating the integration of the country's economy, price relations in the period after 1965 reached a level better than at any previous time. In addition, the system of prices, to a much greater extent than in previous years, has been brought into line with conditions insuring full initiative on the part of working people. The relations between industrial and agricultural prices have been improved, which is of essential importance for this branch of production. Within industry and mining the position of power production is improving, so that on the whole one can speak of an improvement in primary activities and of a beginning of serious approach to the problem of tertiary activities. A relative decrease in prices in secondary activities, particularly in industry, is of prime importance for the expansion of the market, especially in the village, as it gives a new impetus for the further development of these branches which will be able to draw resources for investment by better using their capacities and internal reserves. Both in industry and agriculture con-

ditions are becoming increasingly favourable for a realistic decrease in cost prices, the more so as the changes aimed at an improvement in the economic system include many stimulating elements in this respect.

The changes carried out in the level and relations of prices, will bring the prices in the country closer to those prevailing abroad and will thus facilitate the integration of the Yugoslav economy in the world economy, reducing at the same time the amount of foreign exchange spent with a view to achieving a levelling off of prices.

Being part of a long-term policy and system, these changes in price relations have many positive characteristics, since they offer greater possibilities for a faster, more stable and balanced development.

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