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The economics of the creation of Yugoslavia

The political changes of 1918, when Yugoslavia was created, meant the creation of a new economic entity different in both size and structure from previous political formations. It was more than merely a question of a new economic entity in a quantitative sense (size of population, territory, national income and wealth, etc.). There was a qualitative change too, i.e. a new socio-economic structure appeared with its own special characteristics. Instead of the more or less liberal industrial capitalism of pre-war Austro-Hungary, the stage was set for the creation of a new monopoly capitalism. But monopoly capitalism in Yugoslavia had only a small and rather poorly-developed area in which to operate, although it tried to conceal this by resounding slogans about the formation of national capital in a national state. In point of fact the capital was to a large extent foreign dominated and the state was multinational.

The new economic unit

The formation in 1918 of the new political unit of Yugoslavia meant a change in the size and structure of the market. This was the first fundamental fact. Secondly, the new customs frontiers put the constituent parts of the national economy in a fresh situation *vis-à-vis* the international set-up. Within the new political territory itself great changes had to take place: first there was a disintegration of the old economic territorial units (the Kingdoms of Serbia and Montenegro, the Yugoslav parts of the Hapsburg[1] and Ottoman Empires), then a period of adaptation

[1] Some of these were autonomous, like the Kingdom of Croatia, others were administrative units with their local diets and governors (Dalmatia, Istria, Carynthia, Bosnia and Hercegovina). Still others were parts of other provinces with centres outside present-day Yugoslavia (parts of Styria, Hungary, Bulgaria).

followed by gradual integration into a new economic system. These processes were neither easy nor painless, and were concealed by the threefold screen of political conflict, the aftermath of the war and inflation.

Without an analysis of these economic changes it is not possible to understand the great political movements which attracted the dissatisfied masses after the First World War, the ultimate breakdown of the Kingdom of Yugoslavia or present-day economic problems such as the economic reform.

Drawing the new political frontiers

For most of the people who found themselves citizens of the new state, the formation of Yugoslavia meant an absolute reduction in the size of the domestic market. Those areas which had been part of the economic and political formation of Austro-Hungary, with a population of 59 million, now found themselves within the frontiers of Yugoslavia which numbered 12 million people. A market of 677,000 square kilometres was for them reduced to a unit with no more than 248,000 square kilometres. For pre-war Serbia the process was the other way round; the new state meant an increase from an economy embracing 2.9 million people to a market with four times that number. Thus in Serbia a feeling of national pride was created by the number of things one could now buy on the domestic market, while in Slovenia, Croatia, Vojvodina and Bosnia people were surprised to find how little the domestic market had to offer. This was also partly true of Macedonia, formerly part of the Turkish Empire, which gravitated economically towards the south. It was not so with the remote inland areas of Sandjak and the Kingdom of Montenegro which gravitated largely to the Adriatic coast.

Self-congratulation on one side and disappointment on the other were to be at the root of many tensions in the future between those who considered it their sacred mission to consolidate their war gains and build up a self-contained (autarchic) National State, and those who felt more or less clearly that the development of the country's economy required larger markets and a wider extension of economic forces than the Yugoslav frontiers permitted. The former developed a sense of economic xenophobia, originating in an inferiority complex about underdevelopment and an insecurity caused by fear of foreign competition. The latter considered themselves able to meet foreign competition on an equal footing in specialized fields of production, as had been the case before 1914, and they favoured an open economy which would trade with foreign countries on a wide scale. This struggle between two conceptions continued through the inter-war period and even after the socialist revolution. Not until the mid-sixties did it become clear to the majority of people that even if the area of Yugoslavia were ten times larger and her income per head four times bigger this would still not provide a basis for a successful autarchic policy.

Not only was the new market smaller in size in the absolute sense, its productive capacity was also smaller and the purchasing power of the population smaller still. The national income per head in the Austrian part of Austro-Hungary was 5,200 dinars (at 1938 values) and in the Hungarian part 4,400 dinars per head. The average income per head of the new state of Yugoslavia was some 3,000 dinars. The new Yugoslav consumer was a poorer one who could only afford poorer-quality goods and this affected both agrarian and industrial production unfavourably. Moreover, the fixed assets of Yugoslav national wealth fell between 1909–12 and 1919 by 8 per cent, or 241 milliard dinars, and the pre-war level was not reached again until 1925. Most of these losses occurred in Serbia and Macedonia. The national income fell by 7 per cent as a result of the war, and regained the pre-war level only in 1923.[1]

The new area was also different with regard to sectors of production. In the industrial-agrarian Austro-Hungarian economic territory the agricultural products of Croatia, Vojvodina and Slovenia had found ample markets in the industrial parts of the state. Serbia was a homogeneous agrarian state which also exported agricultural products to the same market. The new economic territory of Yugoslavia was predominantly agricultural and so there was no longer a domestic market which could absorb the surpluses of agricultural production.

The economic position of some territories also underwent

[1] I. Vinski, '*Nacionalni dohodak i fiksni fondovi na području Jugoslavije*' (National income and fixed funds in the territory of Yugoslavia 1909–1959), *Ekonomski pregled*, no. 11–12 (1959).

relative changes. For example Croatia, which had been one of the least developed parts of Austro-Hungary, suddenly found itself one of the most developed parts of the new political entity. The size of this relative change for the economies of Croatia, Slovenia and Vojvodina may be shown by a few examples. Pre-1914 Croatia, Slavonia and Dalmatia, made up 23 per cent of the territory of the newly-created state of Yugoslavia in 1918 with 27 per cent of its population and 33 per cent of its industrial workers. Their trade amounted to 27 per cent of the total internal trade of Yugoslavia. The greatest change in concentration was manifest in the field of banking and financial capital. In 1912 the banks and credit institutions of Croatia had altogether only 5.4 per cent of the assets of the banking and credit institutions of Hungary, whereas in 1921 the capital concentrated in the banks of Croatia amounted to 50 per cent of the total bank capital of Yugoslavia.

In the new territory Zagreb became the strongest financial centre, as well as the biggest industrial and commercial centre, but it lost both its administrative position and its political power and could not reconcile itself to this. Political and military power were concentrated in Belgrade, which tried to compensate for its economic disadvantages by becoming the leading political centre.

The changing role of foreign trade

Because of the changes in frontiers after 1918, foreign trade in the new political territory became much more important and played a much more propulsive role than it had under the old political set-up. The volume of foreign trade grew faster than the national income. The bulk of the exchange of goods which beforehand had been a matter of domestic trade within Austro-Hungary or the Turkish Empire, now, because of the new customs frontiers, became international trade. This was especially true of the exchange of goods between agriculture and industry, which began to have a significant effect upon the balance of payments. It is also true that what had earlier been foreign trade between Serbia and Montenegro and the Austro-Hungarian and Ottoman Empires now became internal trade, but, in spite of increased inter-provincial exchange after the war, this amount cannot be compared with the former. It is surprising to see how little trade in industrial products there had been before the war between the various parts of Yugoslavia. For instance, in 1912 the larger factories in Croatia and Slavonia exported 31 per cent of their total products to Austria and 42 per cent to Hungary, while only 5.5 per cent went to Bosnia and Hercegovina and 6.7 per cent to Rijeka. Serbia bought only 0.4 per cent of Croatian industrial exports. On the import side, the total purchases by Croatian industry in Serbia amounted to 300,000 gold crowns (or 1 per cent) of a total value for imports of industrial products of 29 million crowns.[1] Macedonian trade showed similar tendencies, being directed mainly south, towards Salonika.

The separation in 1914 by political and customs frontiers of producers from their traditional markets meant a great change in the whole structure of the economy. In 1910, livestock and livestock products were exported from the present territory of Yugoslavia to an annual value of 3.5 milliard dinars, while on an average between 1921 and 1927 the whole of Yugoslavia exported only 1.9 milliard dinars per annum of livestock and livestock products – little more than half the pre-war value.[2] It is true that livestock suffered from the effects of the First World War, and also that the volume of exports fell in the first years after the land reform. But there is no doubt that commercial policy played a great role in the reduction of exports and caused important losses to the most advanced regions in Yugoslavia.[3]

Wine was bought and sold internally all over Austro-Hungary before the First World War and was not subject to customs duties. So Dalmatian wine could be bought duty-free in Vienna, Prague, Lwow, Cracow, etc. Exports of wine, which before the war amounted to 48 million gold crowns (or 770 million post-war dinars) annually, fell to between 7 and 14 million dinars a

[1] *Statistički atlas Kraljevine Hrvatske i Slavonije* (Statistical atlas of the Kingdom of Croatia and Slavonija) (Zagreb, 1915).

[2] V. Stipetić, *Kretanje i tendencije u razvitku poljoprivredne proizvodnje na području NR Hrvatske* (Trends and tendencies in the development of agricultural production on the territory of the People's Republic of Croatia) (Zagreb, 1959), pp. 97, 174.

[3] The export of cattle from Croatia amounted in 1910 to 71 million gold crowns; from Bosnia and Hercegovina 8 million; from Vojvodina (Srijem excluded) 85 million; from Serbia 18 million (in 1911 this increased to 38 million gold dinars); and from Slovenia 17 million gold crowns.

year in 1921–7. This affected especially badly the wine-growing areas of Croatia, Vojvodina and Eastern Serbia.

The food-processing industry was also affected. In pre-war times it was specially favoured by the Hungarian Government, which gave state premiums for exports of flour, sugar and alcohol. After the war these exports were considerably less, causing the biggest losses to Vojvodina and Croatia. When the first post-war hunger in Central Europe had been satisfied, the flour mills in Yugoslavia were greatly affected by the loss of markets. Exports of flour in 1923 still amounted to 239 million dinars, but in 1927 they had already fallen to 89 million, and in 1928 to a bare 8 million dinars a year.

The alcohol distilleries reduced their total production to one-tenth of their capacity and their export in 1923 amounted to only 1 per cent of their productive capacity. The fish-canning industry on the Adriatic was heavily hit. The 23 factories on the coast used to supply the whole Austro-Hungarian market but for the new and poorer territory of Yugoslavia their products were too expensive and their capacity too large and they were therefore only able to work at 25 per cent of capacity.

The autarchic industrialization policy

Industrial development presented the other side of the picture. A vacuum in the supply of industrial products was felt as a result of the creation of the new customs and political frontiers. The old suppliers of industrial products in Central Europe (Czechoslovakia, Austria, Hungary) were now cut off and frontiers prevented the free flow of goods from abroad. The first consequence was that some branches of industry within Yugoslavia started to expand very fast. In 1919, 109 factories were opened in Yugoslavia, in 1920, 144 and in 1922, 170 – the largest number started up in any one year between the two wars.

The policy of industrialization also affected the structure of fixed capital. Taking 1919 as 100, total fixed capital increased to 119 by 1929. Industrial fixed assets rose to 183, while fixed assets in agriculture remained at only 117, and in transport grew even more slowly (107). This shows to what extent the new situation favoured industrial capital formation, and how neglected and exploited agriculture was, in spite of the fact that

77 per cent of the active population made their living from agriculture. On the other hand, fixed assets in housing increased considerably, because of growing urbanization.[1] The following government measures were taken to control industrialization: increased customs duties; considerable but one-sided credits for industrial development, given by the National Bank and the State Mortgage Bank; opening of state mines; granting of mining concessions; developments of transport by the use of public funds and subsidies for industries.

Customs duties were mainly determined from the outset by the policy of creating domestic industries. This had already been evident in the pre-war Serbian customs tariff of 1903 which was now extended to Yugoslavia as a whole. The new customs tariff of 1925 increased protection still more.

The customs import duties of 1925 amounted, for specific groups of commodities such as ceramics and glass, to 50–100 per cent, for agricultural products and food to 20–100 per cent, alcohol and beverages 300 per cent, metal industries 20–50 per cent, machines 5–15 per cent, textiles and hides 10–30 per cent, and some chemical industries 50–100 per cent. Besides import duties there were also at this time quite heavy export duties introduced especially for the export of certain foods and livestock, raw materials such as hides, linseeds, oil seeds, scrap metal, rags, timber, etc.[2] For instance, imports of raw cotton amounted in 1923 to 20.5 per cent of the total weight of imported cotton and cotton fabrics and in 1930 increased to 40.8 per cent. The general tendency was to reduce imports of fabricated products and to increase imports of raw materials and semi-finished products. Imports of finished cotton fabrics fell from 57.6 per cent to 30.9 per cent of the total imports of cotton. Imports of woollen fabrics were reduced between 1923 and 1930 from 60 to 29 per cent of total wool imports and imports of raw wool increased from 23 to 47 per cent. (These figures are related to the total weight of wool and woollen products.) A similar tendency is seen in iron imports. Imports of pig iron increased from 29 to 36 per cent, while imports of iron products fell from 71 to 64 per cent.

[1] Vinski, *Ekonomski pregled*, no. 11–12 (1959).
[2] M. Savić, *Industrija i carinska tarifa* (Industry and customs duties) (Belgrade, 1929), pp. 23–4, 37.

Before 1925 this protection was 23 per cent of the value of imported industrial products, and after 1925 it amounted to 32 per cent. In 1931, during the great crisis, customs protection increased to an average of 46 per cent. A similar policy of domestic autarchy was also practised by other countries in Eastern and Southern Europe (Austria, Czechoslovakia and Italy on the industrial side, and on the agricultural Hungary, Poland, Romania and Bulgaria). Agrarian countries protected their industries by customs duties and industrial countries protected their agricultural production. In this way the volume of their mutual trade declined, and they all became more vulnerable to crises.

Customs protection in Yugoslavia particularly favoured textiles, leather, hides, metal and other general consumer foods industries (Table 1).

This policy then was one of highly-protected industrialization at the expense of the domestic consumer. The agricultural producer was cut off from his external market and left to the mercy of 'national' dealers, who were in fact very often middlemen or agents of foreign firms. There was a general fall in the standard of living and that the great mass of peasant producers were enormously worse off can be seen by the wide opening of the price scissors in favour of industrial over agricultural prices. This was still more emphasized by the monetary policy of deflation after January 1923, which imitated the monetary policy dictated after the Genoa Conference in 1922 by international financial capital. Table 1 shows the disparity between prices of agricultural and industrial products in Croatia, which can, by and large, be taken to be representative for the whole of Yugoslavia. In constant prices, expressed in gold, the 1926 prices show the following increases compared to those of 1913: a man's shirt which before the war cost 1.2 gold crowns was sold after the war at 4.27 gold crowns (index 356); woollen fabric after the war was at index 273, coffee 242, salt 129, and sugar 151 (taking the pre-war prices in gold equivalent as 100).

Other manufactured articles of general consumption showed still greater differences. For instance paraffin (*kerosene*) had an index of 211, soap 272, matches 454. In 1928 the indices of retail prices (1914 = 100) were 145 for food, 190 for textiles and 177 for all other consumption goods. The general index of

TABLE I

Price disparity between agricultural and industrial goods in Croatia

	Quantity	Price in gold		
		1913 crowns	1926 dinars	1913 = 100
Arable land	1 ha	1,670	1,273	76
Wheat	1 q	22	24.09	109
Sugar beet	1 q	2.60	2.18	84
Maize	1 q	16.50	16.80	102
Wine	1 hl	46	45.50	99
Fattened oxen	1 kg	0.65	0.68	105
Fattened pigs	1 kg	1.12	1.13	101
Superphosphate	1 mtc	7.76	8.45	109
Copper sulphate	1 kg	0.65	0.91	140
Saltpetre	1 kg	28.0	47.30	169
Bricks	1,000	28	54.50	195
Plough	1	58	91	157
Cart	1	160	364	227
Scythe	1	2	3.2	160
Maize drill	1	55	77.3	140
Man's cotton shirt	1	1.2	4.27	356
Woollen cloth	1 m	3	8.20	273
Sandals	1 pair	3	11.82	394
Hat	1	2.40	10.9	454
Salt	1 kg	0.28	0.36	129
Sugar	1 kg	0.96	1.45	151
Coffee	1 kg	3	7.27	242
Matches	100 boxes	2	9.08	454
Paraffin	1 lt	0.28	0.59	211
Soap	1 kg	0.60	1.63	272
Yeast	1 kg	1	2.54	254

SOURCE: S. Poštić, *Istraživanje o realnosti reformiranog katastra zemljišta* (Research into the rationality of reformed land cadastral) (Zagreb, 1935), Table 7.

consumer goods, again taking 1914 as the base year, rose as high as 168. In more concrete terms,[1] before the war 1 quintal of maize would buy one suit for a peasant, or one pair of good boots. After the war 2½ quintals of maize were necessary to buy a pair of boots, and a suit would cost the equivalent of 4 quintals of maize.

In 1913 for the equivalent of one pair of average oxen a peasant could buy 20 ploughs. After the war they would bring him only 10 ploughs. For the same price in oxen before the war he could buy 2 drills or 4 new carts, but after the war only 2 carts or half a drill could be bought. One quintal of hay was equivalent before the war to a can of kerosene or 3 packets of nails. After the war a can of kerosene cost 3 to 5 quintals of hay, and 3 packets of iron nails 2 to 3 quintals.

The decline of real wages

The policy of monopolistic industrialization and excessive protection also caused a decline in real wages of workers, government servants and other employees.[2] If we take as our measure a theoretical minimum list of necessary expenses, then only 64 per cent of the cost of living for a family of 4 could be met in 1914 out of an average worker's wage, and in 1930 only 58 per cent (Table 2). Employees (white-collar clerks) in the business sector could cover up to 113 per cent of such a minimal list with their average salaries, and government servants 204. They thus had incomes above the theoretical subsistence level. By contrast, agricultural workers could cover only 44 per cent of the minimal list in 1914. By 1930 the real wages of workers declined by 9 per cent, as compared to 1914, being 32 per cent below the theoretical minimum level; over the same period, the real incomes of white-collar workers fell by 15 per cent and those of government servants by 44.6 per cent. Agricultural workers had their real wages reduced to 30 per cent, i.e. they were 70 per cent below the theoretical minimum.

This means that, in spite of considerably increased demand

[1] O. Frangeš, *Koje se granice postavljaju poljoprivrednoj proizvodnji u Kraljevini Srba, Hrvata i Slovenaca?* (What are the limits set to agricultural production in the Kingdom of Serbs, Croats and Slovenes?) (Zagreb, 1920), pp. 10, 11.
[2] 'Indeks', *Socio-Political Review*, XI, no. 2 (1939).