

INTERNAL WEALTH TRANSFERS AND BALANCE OF PAYMENTS STATISTICS

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Just before he so unfortunately died, Toussaint Hočevar wrote to me about how to calculate the transfer of wealth from Slovenia to other parts of Yugoslavia on the basis of balance of payments statistics. The paper in which he attempted to establish at least some relevant figures was read at the Third World Congress of Soviet and East European Studies at Washington in 1985.¹

Here I must forego the wish to work out what the actual transfer of wealth amounted to, because I have no access to the figures; but I intend to discuss why and how a transfer of this nature comes about, if it does. Nonetheless I shall first summarize what Hočevar actually said. According to the Ljubljana data he used, in 1980 the Slovene current account surplus trade of goods and services with other Yugoslav republics amounted to 53.8 billion² dinars, equal to 21% of the Slovene Gross Social Product [GSP], while with respect to trade with the rest of the world Slovenia had a deficit of 17.1 billion dinars, equal to 6.7% of its GSP. The overall Slovene surplus in 1980 was consequently 36.7 billion dinars, i.e., 14.3% of the Slovene GSP. If these figures were true in their entirety, the discontent in Slovenia regarding its position in the Yugoslav economy would obviously be justified.

The first reservation that has to be made concerns foreign trade statistics, which are limited to trade in goods, while the Yugoslav foreign service accounts by republics do not seem to be known. Since these accounts include the net inflow from tourism and the net transfers by guest workers, amounting together to almost 80 billion dinars, they cannot simply be ignored, in particular because Slovenia is not a leading recipient in these two respects. On the other hand it is true that, regardless of the statistics of the foreign current amount, the Slovene surplus with the rest of Yugoslavia is what it is—unless, of course, other republics use part of their receipts from abroad to pay for Slovene goods and services.

Hočevar supported the conclusion that Slovenia transferred a considerable portion of its products to other Yugoslav republics without a worthwhile *quid pro quo*, by figures showing that the increase in cash balances owned by Slovene individuals, enterprises and institutions is approximately the same as the overall Slovene surplus with other Yugoslav republics. I am afraid that this identity must be considered purely coincidental: first, the overall deficit is not final because, as pointed out above, the exchange of services with foreign countries is not included; second, it cannot be assumed that the whole increase in cash balances in Slovenia is due to the transfer of cash balances from other republics.

Hočevar wrote to me in January 1987 as follows:

“Regarding the money supply in Slovenia, it is my view that it corresponds to the fast rise of the money income. This relationship may be even lower than in the South because of the greater efficiency of the Slovene banking system. In Slovenia the rise in the money surplus is due to real transfers, that is, to the surplus in the trade with other republics, while these latter acquire their increased money supply in the form of credits from the central bank. There is an analogy between Slovenia and West European countries which, in the 1960s, accumulated dollar reserves by means of trade surpluses. Over the last few years, the United States has been covering its foreign deficit by foreign indebtedness. Of course, this kind of claims on the whole preserve their value while Slovene

dinar claims—made worse by the absence of interests—are being eroded by inflation. Consequently unilateral transfusions occur in reality. If this did not apply, Slovenia could force the South to tighten the belt in the same manner as governments with foreign currency denominated claims can force Yugoslavia to do so. There is talk about indexation but indexation could be effective exclusively if it applied to all financial assets, i.e., also to the trade credits and central bank credits.”

We must analyze Hočevár's thoughts because it would be useful to clarify the economic relationships in Yugoslavia, both to assess the Slovene position within the country *sine ira et studio* and to work out a starting-point for possible requests as to how inter-republic trade should be reformed. Of course I do not pretend to know the answers, not being in possession of the requisite data, but I wish to indicate in which directions we have to search.

As a beginning, the Slovene current balance should be calculated with greater precision. The figures have little value as long as the important sector that comprises exchange of services with foreign countries is left out. If data are not available, estimates are needed; but, naturally, the basis for the evaluation has to be clearly spelled out.

After the full Slovene balance on the current account has been drafted, the financial side must be at least outlined. To rely on the increase in the supply of money is both too little and too much.

It is too little, because real transfers can occur without any increase in the supply of money. Payments of contributions to the central government and the extension of monetary credits take the form of, first, a transfer of cash balances to the central government or to the debtor and, later, a return of these cash balances into Slovene hands when they are used to buy goods or services in Slovenia. On the other hand, trade credits granted by Slovene firms do not even appear in the bank accounts, but only establish a legal relationship between a Slovene firm and a non-Slovene debtor.

In contrast, it is also too much, because the figures indicating an increase in the money supply overstate the real transfer, in that Slovene political authorities, banks, firms, etc. indubitably also have recourse—as matters stand at present—to direct borrowing from the central bank, so that in many instances they need not transfer any goods or services to obtain cash balances. With this borrowing, they also contribute to the erosion of the value of money, and hence to the erosion of all those who hold financial claims. It would also be necessary to work out the figures indicating the inter-republic relations in this respect.

If, in the end, it were found that Slovenia does sell goods and services to other parts of Yugoslavia for cash which it then holds instead of using for its own purchases, the question would arise why this should be so. As Hočevár explains it, there would in this case be an analogy between the acquisition of dinar cash balances by Slovenia as a counterpart to a portion of its excess of exports of goods and services to the rest of Yugoslavia over its imports therefrom, and the acquisition of dollar balances by the Federal Republic of Germany in its trade with the United States of America. The crucial differences would be, of course, that the Federal Republic acquires a foreign currency, whereas Slovenia receives domestic currency which cannot be easily distinguished from the domestic currency acquired in other ways. Of course Slovenia, or rather Slovene individuals, can also obtain foreign currency in their dealings with other parts of Yugoslavia, for the simple reason that the inflow of foreign currency into, e.g., Croatia or Bosnia, on the basis of tourism or guest workers' transfers, is considerable. But figures about these transactions are impossible to come by because these transactions are illegal, although everybody knows that they take place to an important extent. Of course nobody in Slovenia complains if they are paid in,

say, Deutschmarks for their goods and services, or simply for their dinars, even though they may hold on to these marks for quite some time.

When Hočevar mentions dollar balances acquired by the Federal Republic of Germany in its dealings with the United States, he has official German currency reserves in mind. But many more dollar balances are held by private German firms and German citizens—even though it is certain that the dollar has been losing its purchasing power much faster than the German mark. Private firms and citizens may wish to hold dollars because they believe that the higher interest rates they earn on dollar balances compensates them for the loss of value; or they may simply hold them for convenience, since dollars are still very clearly a “trade currency.” On the other hand, the reasons for German—or Japanese—monetary authorities to hold dollars in excess of any obvious need seem to be connected with industrial and foreign trade policy.

Official foreign currency reserves rise if the monetary authorities of a country peg their own currency below the equilibrium exchange rate, which means that the price of foreign currencies in domestic currency is too low. This is by necessity a deliberate policy, because it requires an official intervention in the foreign exchange market. It reduces the domestic demand for imports and enhances the foreign demand for the country’s exports; this produces a surplus equivalent to short-term lending to foreigners. The purpose can be to maintain excessively high exports and excessively low imports, thus obviating the necessity for the foreign trade sector to adjust, which might include a painful restructuring. In the long run such a policy does not make much sense.

If there is an analogy between the case of West Germany accumulating dollars and Slovenia accumulating dinar balances, as Hočevar wrote in his letter to me, the latter has to be explained along similar lines. Since Slovenia belongs to the same “currency area” as the rest of Yugoslavia, there is no separate Slovene monetary authority that could intervene in order to keep the value of the dinar in Slovenia below the value of the dinar elsewhere. The instigation to acquire dinars from the rest of Yugoslavia would have to come from the public in the form of a demand for higher cash balances, in line with the rises in both dinar and real incomes. But, as has been pointed out, the demand for cash balances is presumably covered by monetary issue and, in an inflationary period, this demand will in all probability be held low, for fear that dinar balances would be losing value as time passes.

A possibly higher income elasticity of demand for cash balances could explain a part of the rise in the holding of dinar cash balances in Slovenia, but it most certainly cannot explain an excess of Slovene exports over Slovene imports if this amounts to as much as 21% or even 14% of the Slovene GSP. As far as I am aware, there is no way for the rest of Yugoslavia to force cash balances on Slovenia. If non-Slovene enterprises are badly run, incur deficits and cannot pay their debts, this deficiency cannot possibly take on the form of raised Slovene cash balances, because it is precisely cash balances that the badly-run enterprises lack. Inversely, an enterprise that transfers cash in this way completes a legal transaction, since the dinar is legal tender. If the Slovenes are in fact left with cash balances they do not want, this can only happen because for some reason they do not use them to buy goods from the rest of Yugoslavia. The reluctance to spend cash would have to be very strong since, at a time of high inflation, the incentive to get rid of cash is overwhelming.

I can think of only one way—albeit a not very convincing way—to explain the Slovene reluctance to use cash balances for buying goods and services. An exchange rate determines the real relationship between incomes in two countries, especially wages, in view of their important share in total incomes and hence also in costs. As a consequence, price

levels in the two countries can be kept in line with costs and with each other by altering the exchange rate. In the same currency area a manipulation of this kind, using the exchange rates, is impossible by definition, so that incomes in various regions—if their levels of productivity vary—have to be in line with levels of productivity, to keep the regions' prices at the same level and therefore competitive. Judging by the figures that are generally known, it is very probable that "personal incomes" in Slovenia are relatively low compared with Slovene productivity, whereas they are relatively high in some other regions. This relationship would mean that the prices of some goods produced outside Slovenia could be on the high side, and vice-versa. But would sellers of highly-priced goods not be forced to lower their prices, in view of any difficulty in selling them at cost price, and to sell them at a loss? And again: is it possible that anybody, under the present circumstances in Yugoslavia, would retain cash balances and not buy goods unless they were outrageously overpriced?

It must be further pointed out that the variation in the relationship between levels of productivity and wages is the main explanation of why there are considerable differences in the rates of unemployment among the various parts of Yugoslavia. At the margin, wages become higher than labor productivity, so that additional workers are not taken on in spite of otherwise general financial indiscipline.

In conclusion, I should emphasize that the figures indicating an increase in the money supply in Slovenia hardly corroborate the calculation of a sizeable transfer of wealth from Slovenia to the remainder of Yugoslavia on the basis of incomplete current balance statistics. If they did, the intriguing question would remain as to why the Slovenes transfer real wealth in exchange for dinar cash balances, since nobody can possibly force them to do so.

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NOTE

1. The paper by Toussaint Hočevar to which this article refers was published under the title "Interregional economic integration: the Yugoslav case" in 1985, cf. his bibliography in this volume, item 96.
2. In this article 'billion' is used in its general European meaning, viz., 1,000,000,000.

POVZETEK

ODTOK BLAGA IZ SLOVENIJE

Toussaint Hočevar je skušal izračunati odliv blaga iz Slovenije v druge jugoslovanske republike na podlagi povečanja denarnih sredstev v slovenskih rokah v enem letu. Ta metoda ne more privedi k sprejemljivemu rezultatu, ker odliv po eni strani pretirava, po drugi pa podcenjuje. Podcenjuje, ker je odliv mogoč brez povečanja gotovine; pretirava, ker očitno vsako povečanje denarnih vlog ni posledica prenosa blaga ali uslug. Sploh je vprašanje, zakaj naj bi Slovenci nabirali gotovino, ki v inflaciji hitro izgublja vrednost, namesto da z njo kupijo blago ali usluge v drugih delih Jugoslavije.