

Income Distribution in Yugoslavia

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INCOME DISTRIBUTION policy is a topical issue in all countries, regardless of their economic and social systems or levels of development. On the other hand, a country's level of development and its economic and social system do determine the nature of the problems to which it gives rise and the methods adopted by society to deal with them. In this sense, Yugoslavia has its own approach and its own procedures, and Yugoslav society has an entirely individual way of bringing its influence to bear.

Income distribution in the context of a market economy and a self-management scheme

In Yugoslavia undertakings act as the basis and mainspring of economic development. This is because of the three fundamental tenets of the country's socio-economic system:

- (1) the social ownership of the means of production throughout most of the economy and the consequent exclusion of private ownership as a basis for appropriating the fruits of other people's labour;
- (2) the existence of a market economy, subject to the operation of economic laws, above all, the law of values; and
- (3) the workers' self-management scheme, which is a concrete manifestation of socialist relationships and entitles the workers, through their self-management bodies, to decide how part of the revenue of undertakings should be used.

Workers in Yugoslavia do not "earn wages". What are known as their "personal incomes" consist of a share in the total revenue available

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for distribution by the undertakings in the productive sphere or institutions in the non-productive sphere¹ in which they are employed (see diagram). Undertakings derive this revenue from their work and the marketing of their products or services. After discharging their obligations towards society in the form of taxes and contributions, they are free to use the remainder for the payment of personal incomes, the maintenance of "common consumption funds" (catering for certain collective social needs), or for capital investment. Institutions in the non-productive sphere enjoy similar freedom but do not derive their revenue in the same way; most of it comes from budgetary or other public funds, depending on the social significance of their work and their specific programmes and results. Consequently, personal incomes are not fixed by society on the basis of general regulations, wage scales or wage agreements; society's main concern is to provide uniform conditions in which incomes can be earned.

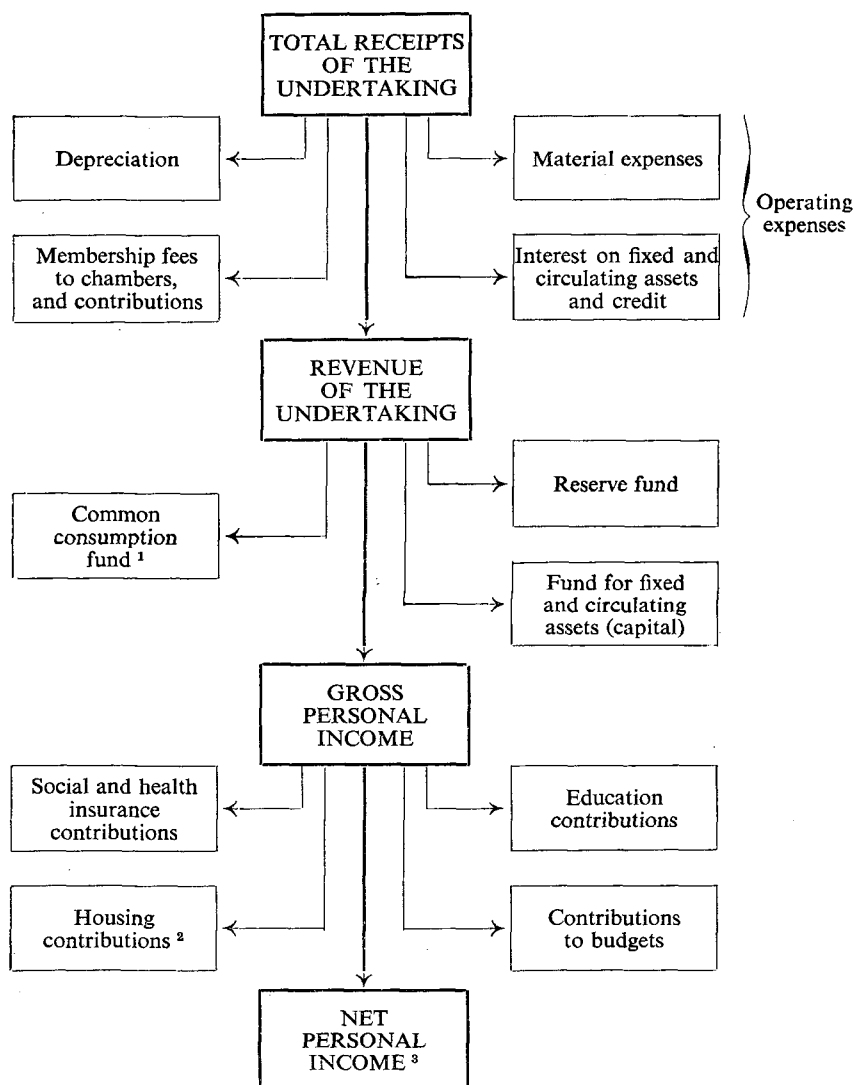
Undertakings are thus free to take many economic decisions affecting the volume and pattern of production (and, by extension, the income they will earn), as well as the distribution of their income. This process, of course, is subject not only to the normal laws of the market itself but also to certain constraints imposed by the community (and especially the State).

In the first place, an undertaking must produce in order to earn a share in the distribution of income. Since it is exposed to market forces, moreover, it has to operate efficiently, making the best possible use of all the factors of production (labour, equipment, raw materials and power); otherwise it will not be competitive. It earns its income by marketing its goods, and the size of its income depends on how far it meets demand and how efficiently it operates.² For objective economic reasons as well as in its own interest, it must avoid distributing its entire revenue in the form of personal incomes for its workers and must set aside a proportion for investment; otherwise, both production and

¹ The productive sphere comprises industry, mining, agriculture, forestry, construction, communications, trade, catering and handicrafts, i.e. fields in which new commodities are produced. The non-productive sphere comprises education, health, social insurance, government, social protection and other, similar social activities where no new commodities are produced. The division is based on the Marxist approach to productive and non-productive work.

² Price increases can also be a source of revenue, of course, but the fact that revenue is derived in this way does not necessarily imply a departure from the principle of distribution in proportion to the work done. (In accordance with the law of values, goods are marketed at prices that take account not of their individual production cost but of the average cost as recognised by society. The more efficient manufacturer accordingly earns more on each new product; conversely, the more expensive manufacturer earns less. This, however, does not mean that the principle of distribution according to the work done has been abandoned. It merely means that distribution is subject to the laws of a market economy.) It is specifically to prevent prices from becoming an unjustified source of revenue that one of the major aims of social policy and development planning is to achieve stability and combat inflation. Most prices are still state-controlled or subject to supervision.

DISTRIBUTION OF REVENUE AT THE LEVEL OF THE UNDERTAKING
IN YUGOSLAVIA



¹ The purpose of the common consumption fund is to provide money within the undertaking for certain collective needs, such as annual leave subsidies, the financing of upgrading schemes and subsidies towards works catering facilities. ² The payment of a housing contribution is a statutory obligation, but the money remains available to the undertaking and is partly used to subsidise rents. Provision has been made by law for a degressive subsidy to be paid until 1970, after which rents will be payable out of the workers' net personal incomes. Rents have been fixed in such a way as to allow for maintenance, depreciation and new building and also for assistance to workers who want to build their own homes. ³ It should be observed that turnover tax is paid at the retail stage, i.e. out of net personal incomes.

consumption will subsequently stagnate.¹ Its aim is thus to expand production, thereby increasing its own revenue and the funds available for personal income, i.e. for raising living standards. A mechanism is thus built into the system itself to ensure that the immediate objective of economic activity is to promote the welfare of the people and that the wealth so created is distributed solely on the basis of the results of work, as measured by the market.²

Within the socio-economic structure described above the State has a specific part to play, primarily in securing uniform conditions for the operation of undertakings and in ensuring that the income of each group of workers increases in proportion to the results produced by its members. This is achieved by planning and the operation of various economic controls, such as taxation, price and credit policies, import and export regulations and the allocation of long-term credits (which influence investment and industrial expansion). These controls constitute the second form of constraint within which undertakings and institutions operate.

The aim of government action, however, is not to usurp the functions of the undertakings but to create conditions in which self-management can operate effectively. The State—that is to say the Federation and the individual republics and communes—also appropriates part of the income of undertakings in the form of taxes, which are then devoted to various common purposes such as administration and defence; to certain social activities such as social and health insurance, education and the arts³; and to economic development projects, where the money is used for investment, to offset customs tariffs, to assist economically backward areas, and so on.

From what has been said above, it should be clear that in the Yugoslav system the problem of income distribution arises in a quite specific form. Individual, sectoral, regional or other income differentials are primarily a reflection of differences in the results of work; they act as an incentive to economic development, increased production and

¹ Yugoslav experience over a period of ten years or so of progressive decentralisation of funds and economic decision-making has shown that undertakings are acutely aware of this. Even undertakings with relatively low levels of personal income have earmarked large sums for investment. In this connection see Savka DABČEVIĆ-KUČAR, Miladin KORAĆ, Miloša SAMARDŽIJA, Jakov SIROTKOVIĆ, Rikard ŠTAJNER and Tihomir VLAŠKALIĆ: *Problemi teorije i prakse socijalističke robne proizvodnje u Jugoslaviji* [Problems of the theory and practice of socialist commodity production in Yugoslavia] (Zagreb, Ekonomska biblioteka, Informator, 1965), especially pp. 53-95.

² See Berislav ŠEFER: *Životni standard i privredni razvoj Jugoslavije* [Living standard and economic development of Yugoslavia] (Zagreb, Ekonomska biblioteka, Informator, 1965), pp. 10-19.

³ These activities have not yet been completely organised along self-management lines and are still economically separate; even here, however, it is hoped to reduce the role of the State as an intermediary in the course of time and to integrate these activities within the self-management economy.

higher earnings, an incentive which, it may be hoped, will ultimately lead to the elimination of differences in general. If the incomes earned by certain groups or in certain areas are low, this is mainly due to their low level of economic development and limited resources and not to the actual system, which is based on equality.¹ This being so, the main emphasis in income distribution policy and in society's efforts to influence income distribution and development must be directed towards creating uniform economic and social conditions, so that differences in income are the closest possible reflection of differences in the results of work and are not caused by other factors such as monopoly or privilege, or by inequalities in the level of economic development or of education and other social conditions affecting the workers' opportunities. This is where action by society is needed—which is not by any means the same as action by the State; as the economy and society develop, such action can and indeed must be organised along self-management lines.²

The Government has many ways of achieving its objective of uniform conditions. The most important is its prices policy, which is pursued both by means of price-fixing and through society's supervision of price levels. This provides the economic basis for the initial distribution of revenue as between undertakings. Another method is the distribution of revenue within the undertaking: interest is levied on fixed and circulating assets, contributions are payable to various budgets and towards such purposes as education and the social and health insurance schemes; there is also a legal definition of what is to be regarded as revenue. Legislation has been passed fixing a minimum percentage for depreciation, although undertakings are at liberty to raise this figure. Business conditions are also influenced by foreign exchange controls and the machinery of international trade (how far and in what ways commercial dealings with other countries should be liberalised or domestic industry protected, and so on). Credit policies and the bank rate are other factors. Finally, investment programmes are affected by the funds available in the central banks, whose policy is to a large extent determined by the Federation.

¹ All underdeveloped countries with limited basic resources face the problem of how far poverty should be reduced by a redistribution of income and how far a solution should be sought in economic expansion and a higher general level of earnings. While society's efforts must be directed towards establishing equitable criteria for income distribution, the main emphasis must be on laying a proper foundation for the eradication of poverty in general. A policy of distribution according to the results of work provides the necessary economic incentives while respecting the principle of social justice.

² It would be impossible within the limits of an article to give an account of all the premises on which the Yugoslav economic and social system is based. For a more thorough treatment of the subject the reader is referred to Mijalko TODOROVIĆ: *Oslobodjenje rada* [The freeing of work] (Belgrade, Kultura, 1965); Milentije POPOVIĆ: *Društveno ekonomski sistem* [The social and economic system] (Belgrade, Kultura, 1964), pp. 259-400; idem: *Neposredna socijalistička demokratija* [Direct social democracy] (Belgrade, Kultura, 1966), pp. 172-199; Miladin Korać-Tihomir VLAŠKALIĆ: *Politička ekonomija* [Political economy] (Belgrade, Rad, 1966), pp. 185-215 and 301-349.

The self-management system was introduced in Yugoslavia 17 years ago, but it is still, in a sense, in its initial stages. At that time the country was at a very low level of development and even after the system was introduced the Government had to play a very active part in all spheres of social and economic life, including income distribution policy. As the economy developed, the material basis came to be laid for a change in policy; this is the process that is now under way and in some senses is only beginning. Hence, although Yugoslavia is now undoubtedly moving towards less government intervention and greater freedom for undertakings and the other agencies of the self-management system in matters of income distribution, it must be remembered that the movement started from a point where all decisions in such matters lay with Government.

Basic features of income distribution

Trends up to 1964

Fundamental changes were made in the distribution of national income immediately after the Second World War.

First, the ratio between capital accumulation and consumption in the over-all distribution of national income was radically altered. It has been estimated that the rate of capital accumulation between the wars was between 5 and 8 per cent., giving an average annual growth rate of national income of about 2.2 per cent.¹ Immediately after the Second World War the rate of accumulation rose to about 20 per cent. (or a little over); this figure has been maintained and has even tended to increase throughout the 20 odd years since the war. For the level of economic development attained at that time it represented a very high rate of capital accumulation, involving a deliberate restriction of consumption.

Secondly, the available consumer goods were redistributed to benefit the workers and small farmers at the expense of the capitalists and middle classes, whose level of consumption was high. This redistribution, which is estimated to have affected about 40 per cent. of the total volume of such goods, substantially improved the living standards of the recipients in the immediate post-war period.²

Thirdly, the entire system of business enterprise was reorganised on the basis of direct management by the State, and in consequence income distribution policy was wholly determined by government decision. From 1950 this system was gradually replaced by the self-

¹ IVO VINSKI: *Nacionalni dohodak i fiksni fondovi na području Jugoslavije 1904-59* [National income and fixed assets in Yugoslavia, 1904-59] (Zagreb, Ekonomski Institut, 1963).

² ŠEFER, op. cit., p. 59.

management scheme and the whole economic and social structure was reformed accordingly.

In spite of the radical changes that resulted, the proportion of total net income available to undertakings remained at the unsatisfactorily low level of about 40 per cent.¹ Undertakings normally had sufficient revenue to maintain the standard of living of their workers (i.e. through the payment of personal incomes and the establishment of "common consumption funds"), but they had relatively little money over for new capital projects, and most of the surplus devoted to investment came from outside sources in the form of credits from the Federation and the individual republics and communes. This did not provide the self-management scheme with a particularly broad base on which to operate; hence the constant tendency to spread the burden of investment by a steadily increasing recourse to taxation. In addition, the State assumed responsibility for financing and developing all non-productive activities; many benefits in the field of social and health insurance, education, etc., were progressively extended in this way, and it is not surprising that there was no substantial change in the proportion of the gross social product available to undertakings until 1963, when it amounted to about 48 per cent., rising further to around 50 per cent. in 1964.²

It is precisely because of these features of income distribution up to 1964 that there was no significant change in the over-all distribution of gross social product. The share of consumption, and especially personal consumption, in fact diminished over that period, while the share of investment increased (see table I).

The figures are too general to be entirely suitable for an analysis of income distribution, and the item "difference" is too large, absorbing a significant proportion of income. Seen in the light of trends over the period it covers, the table nevertheless shows how the distribution of social product continued to change in favour of investment. In defining its economic policy the Government has stated that this trend has been one of the basic flaws in income distribution in the past and must be progressively corrected with the help of the reforms undertaken in the last two years (about which more will be said later).

The very rapid expansion of the national economy over recent years has meant a considerable increase in all forms of income affecting the standard of living—especially those devoted to personal consumption, such as personal incomes, pensions, children's allowances and the private earnings of self-employed farmers and handicraft workers. There has been a similar increase in the volume of revenue allocated to various social purposes of major importance for the workers, such as education and health. Real national income over the period 1956-64 increased

¹ *Komuna i standard* (Belgrade, Rad, 1960), p. 64.

² Author's estimates.

TABLE I. DISTRIBUTION OF SOCIAL PRODUCT, 1953 TO 1964

	At current prices (thousand million dinars)				Percentage distribution			
	1953	1956	1960	1964	1953	1956	1960	1964
Total	1 134	1 612	2 887	6 100	100	100	100	100
Personal consumption . .	598	864	1 492	2 963	52.7	53.6	51.7	48.6
Public consumption .	214	242	381	633	18.9	15.0	13.2	10.4
Gross investment .	363	461	936	2 038	32.0	28.6	32.4	33.4
Trade balance . . .	-66	-33	-57	-177	-5.8	-2.0	-2.0	-2.9
Difference	25	78	135	643	2.2	4.8	4.7	10.5

Source: *Statistički godišnjak FNRJ, 1966*, p. 117.

Note: The social product is the aggregate of national income and depreciation. It should be noted that the figures for national income were calculated only for production and services, to the exclusion of non-productive activities, because we are concerned here with the redistribution of values created in the material sphere. This reduces the figures calculated by United Nations methods by about 12 to 14 per cent. Public consumption includes expenditure on social services, administration and national defence and also subsidies and grants. The differences are the result of various conflicting trends (differences in prices and customs tariffs, time limits of a statistical nature, and so on).

by about 118 per cent., or 10.2 per cent. per year. The real volume of personal consumption rose by 98 per cent. and public consumption by 284 per cent., representing annual averages of 9 and 18.3 per cent. respectively. Measured in terms of these last two items the money available out of current income for the improvement of living standards increased by 122 per cent., or 10.5 per cent. per year.¹

This high rate of growth has been a contributory factor in the very rapid improvement in the standard of living of the population. Even so, it is typical that personal consumption has risen more slowly than national income—despite the fact that any improvement in the latter, as was mentioned earlier, was obtained at the cost of a depressed level of personal consumption—and that the volume of revenue available for public consumption has been expanding very much more rapidly. This is undesirable; it has meant that personal incomes, which are directly related to the results of work and to business generally, have

¹ The figures for national income are based on *Statistički godišnjak FNRJ, 1966*, p. 110, and those for personal consumption and social expenditure are an estimate made by the Federal Bureau for Economic Planning. Social expenditure covers material outlay on social projects and capital investment (including housing) in the same sphere, i.e. only expenditure directly serving to improve the standard of living; it excludes the cost of administration and national defence.

not kept pace with the rising trend of national income. They have admittedly improved with the rapid over-all expansion of the economy, but the disparity has reduced the effect of several factors in the standard of living that act as a direct incentive to business and economic development, while greater prominence has been given to other factors unrelated to the results of work as far as the individual is concerned. Through the use of public funds there has in fact been a steady increase in expenditure not only on activities such as education and health services that naturally have to be financed in this way but also on other activities that should normally be paid for out of personal incomes and as a part of personal expenditure, on condition that society contributes to their development in other ways.¹

The building of houses and flats has been a typical example; over the past few years housing schemes have relied exclusively on public sources of credit, while private individuals have played little or no part in solving housing problems. In addition, with the level of personal incomes as low as it has been, some types of consumer goods have had to be subsidised, with the result that income rates have become even less meaningful than before and the criteria for income distribution have become increasingly distorted.² When it is remembered that education, health and other social services are financed entirely out of budgetary funds (or in some similar way out of special public credits), that housing has been the exclusive concern of the public authorities and that many consumer goods and services have been subsidised, one is forced to conclude that the economic conditions required to establish a direct link between standards of living and the results of work and business generally have not been fulfilled in practice and that the economic foundations for a distribution "to each according to his work" have not been laid.

As the data quoted earlier have shown, the past few years have been remarkable for the high rate of economic growth and the accompanying expansion of personal consumption and all types of income for the improvement of living standards. Further evidence can be found in the fact that real personal incomes increased by 80 per cent., or 7.5 per cent. per year, between 1956 and 1964.³ But it is also clear that there has not been an adequate policy for distribution either as between personal and public consumption or even in the single sphere of personal consumption, on account of the grants and subsidies that have been paid. By weakening the control of the workers over income distribution and enlarging the role of the State in this sphere this has been instrumental in slowing down the economic and social processes based on the workers' self-

¹ The result has been a very heavy burden of taxes and contributions on personal incomes, amounting in 1964 to 73.2 per cent. of net income.

² In 1964 subsidies and grants represented about 7 per cent. of net personal incomes. See ŠEFER, *op. cit.*, p. 84.

³ *Statistički godišnjak FNRJ, 1966*, p. 274.

management scheme and in reducing the benefits of development as a whole. An overhaul of the system, or rather of the machinery through which it operated, was evidently necessary, and in mid-1965 far-reaching economic reforms began to be introduced.

The reforms of 1965

The aims of these reforms, which are still under way, are briefly as follows. It is hoped to lay the foundation for a consolidation of the workers' self-management scheme in all sectors of the economy and society, to relieve the State of responsibility for the distribution of total income (including the funds necessary for economic growth), to make further progress in the international division of labour, to effect a transition from labour-intensive to capital-intensive industry and to increase the general efficiency of business. Once this last aim has been achieved, it will be financially possible to increase the proportion of revenue devoted to personal consumption, to reduce that devoted to investment and other forms of public expenditure and to link the individual worker's standard of living more directly with the results of his work.

The reforms began with changes in price levels and price structures. Subsidies on consumer goods were slashed and, to offset the increased cost of living, undertakings and institutions scaled up their workers' personal incomes as far as their available resources allowed. In this way earnings were brought into a more realistic relationship with prices and were more directly geared to economic performance, thus establishing a consistent link between the standard of living and the results of work, with a built-in guarantee that greater efficiency would mean higher total revenues for undertakings and hence more money for the workers in the form of personal income. Since all non-productive activities—including social services, such as education and health—are financed from taxes on personal incomes, the system provides automatic machinery for increasing revenue in the non-productive sphere, in line with trends in the productive sphere.

Simultaneous changes were introduced in connection with housing. Rents were fixed at a realistic level that would cover maintenance and depreciation and allow a reasonable margin for new building. Certain public funds that had previously been raised by special taxation were made over to undertakings. Rent subsidies will continue to be paid by undertakings as a temporary measure until 1970, when the degressive annual rate will lapse and rents will be paid entirely out of the workers' own pockets. In principle, housing has been made to pay its way, any necessary credits being provided by the banks.

Sweeping changes were also made in the non-productive sphere. Social insurance contributions and taxes were reduced, and expenditure was accordingly scaled down to what was financially possible; hitherto

it had had a tendency to snowball out of all proportion to the real capabilities of the economy, as was seen above.

The reforms now under way should integrate productive and non-productive activities more closely, consolidate the position of the workers' self-management scheme and gradually reduce the function of the State as an intermediary and organiser.¹ In principle, this should pave the way for an increasing recognition of higher living standards as the motive force in economic and social progress in a system where the distribution of purchasing power among the different sectors of the population is more consistently linked with the results of work, and where public consumption and the corresponding funds are kept separate from personal consumption and earned income.

From the results so far achieved these objectives are clearly being attained, in spite of certain difficulties. Undertakings now have about 60 per cent. of total net revenue at their disposal. In the initial stages there was a temporary drop in living standards, because the adjustment of personal incomes was not completed until six months later. Even so, the drop in real terms had not merely been checked by 1966—the trend had actually been reversed; real personal consumption had risen by between 4.5 and 5 per cent. and average real earnings per employed person by about 11 per cent. The appreciable difference between the two growth rates is chiefly attributable to a major increase in savings and a contraction of consumer credit, both of which occurred around the same time. This marks the opening of a new phase in income distribution policy in general and in the realm of living standards in particular; it should lead to a further improvement in welfare, based essentially on economic performance, and a gradual reduction in the redistribution of income by the State.²

Problems of personal incomes

From the foregoing it will be readily appreciated that the problem of personal incomes in Yugoslavia is an extremely complicated one.

The basis of personal income

One constant preoccupation is to co-ordinate real personal income trends with changes in the productivity of labour. This in its turn raises the basic question of how productivity should be measured.

In a market economy where the means of production are managed directly by the workers, and where the workers decide how most of

¹ The various charges on personal incomes in the form of social insurance contributions taxes, etc., have been reduced to 51.7 per cent. of net income.

² All figures for 1966 are provisional estimates.

the revenue should be employed, personal incomes cannot be determined solely on the basis of physical output per worker; this could in fact rise considerably, while all the other indicators of business efficiency were on the wane. The capacities of the market, for example, may have been miscalculated; products may have met with sales resistance; the cost of raw materials and supplies may have increased; and other operating expenses may have risen. Any of these circumstances would inevitably lead to financial inconsistencies and even to actual losses. Under a workers' self-management scheme, these have to be borne by those responsible for the unsatisfactory conduct of affairs and for the mistakes of economic planning. Otherwise the State would have to assume responsibility for redistributing revenue among undertakings, which would naturally imply a different social basis for economic enterprise.

The revenue earned by undertakings is therefore the basic criterion of labour productivity, because it reflects society's assessment of the market value of the work performed (due allowance being made, of course, for expenditure on raw materials, power and other production and operating costs). However, since business conditions vary depending on the market and the workings of the economic system, total revenue and personal incomes roughly follow the same trends as the average social productivity of labour in the broadest sense of the term.

Income is not distributed, therefore, on the basis of individual performance alone; a corrective is applied not only by the market but also by society in different ways. It nevertheless remains true that an undertaking doing more than average business always has a chance of earning more than average revenue (with commensurate earnings for the workers), which is in itself an incentive to economic efficiency.

Mention was made earlier of the various ways in which society brings its influence to bear—through prices, credit policies, taxes and contributions, long-term credit arrangements for industrial expansion programmes, foreign trade policies, etc. All these forms of economic pressure can indirectly affect the earning power of undertakings and hence the personal incomes of their workers.

Income differentials

It is against this background that personal incomes are determined in the different economic sectors, subsectors and individual undertakings (and also in institutions in the non-productive sphere in the light of the proportion earmarked for the purpose in the distribution of total revenue). It is likewise on this basis that personal income differentials arise as between different sectors and subsectors and different undertakings and institutions, and also between and within occupations.

Average personal incomes per worker obviously vary quite considerably from one sector of the productive or non-productive sphere to

another; in fact they can only serve as a very rough guide, because the average for a given sector or subsector covers widely different skills and hence widely different incomes (which are society's recognition of results). Taking the average personal income of all employed persons in 1966 as 100, the highest average rate (187) was earned in design organisations, and the lowest (77) in the timber industry. The inter-sectoral differential was therefore in the region of 100 : 240. The industries with the best averages were petroleum, electrical equipment, shipbuilding, chemicals, air and sea transport, foreign trade and banking.¹ A comparison with the position in other countries shows that, broadly speaking, the same range of average incomes occurs as between the different sectors. Industries obviously develop at different rates according to the country, and it would be difficult to lay down any hard and fast rules or standards regarding differentials throughout the world. It is clear, even so, that average personal incomes in some sectors of the Yugoslav economy are comparatively low because of the depressed level of their total revenue. Coalmining is one example. The collieries' difficulties, however, have wider economic implications than the limited problem of the miners' earnings and are different in nature. The entire coalmining industry needs modernising, a number of pits are uneconomic and will have to be shut down, the pattern of fuel consumption is changing and so on. As far as their incomes are concerned teachers are also at a disadvantage. Here the problem is connected with the very rapid growth of education and the unsystematic distribution and structure of the school network; any solution to income problems will therefore have to be sought in a more rational organisation of the educational system.

Depending on training, average personal incomes in the economy as a whole may vary from an index number of 100 for unskilled labourers to 247 for persons with a university-level education. The gap is narrower in the productive sphere (100 : 244) and wider in the non-productive sphere (100 : 287). Table II shows the position in this respect in 1965.

The skill differentials are not large and may even be considered inadequate to reflect the real differences in work performed. This is due to the earlier policy of wage equality, with its fixed rates for each occupation and level of skill—a tradition that still lingers. The differential between the lowest-paid 5 per cent. of the labour force (semi-skilled and unskilled workers in public services and government) and the best-paid 5 per cent. (persons with a university-level or other advanced form of education) in both the productive and the non-productive spheres is about 100 : 260, or a little above the over-all figure. Given that the skill structure of the labour force is still not homogeneous enough, skill differentials must be expected to widen to some extent in the changed

¹ Savezni Zavod za statistiku: *Indeks*, 1967, No. 4.

TABLE II. PERSONAL INCOME DIFFERENTIALS BY LEVEL OF TRAINING AND SKILL GROUP IN VARIOUS SECTORS
(Unskilled worker in each sector = 100)

Sector	Skill group				Education and training			
	Unskilled	Semi-skilled	Skilled	Highly skilled	Primary	Secondary	Advanced	University-level
All sectors	100	112	137	176	129	165	185	247
Productive sphere	100	111	137	175	130	172	206	244
Industry and mining	100	110	138	180	124	168	201	241
Agriculture	100	115	124	156	121	159	186	221
Forestry	100	105	124	140	126	154	218	235
Construction	100	115	143	181	147	207	241	284
Communications	100	107	131	163	128	157	201	242
Commerce and catering	100	107	129	155	139	168	191	228
Handicrafts	100	109	137	182	156	200	193	204
Housing	100	114	148	178	108	176	189	223
Non-productive sphere	100	134	161	204	140	173	192	287
Cultural and social services	100	135	163	202	140	170	184	288
Public bodies and government	100	97	146	235	145	195	235	291

Source: Savezni Zavod za statistiku: *Statistički bilten*, Feb. 1967, No. 450.

conditions of economic life; this is regarded as desirable at this stage in the country's development.¹

Differentials in average personal income also exist within a given skill group, depending on the activity, sector or subsector in which the worker is employed. These vary from group to group and are smallest for persons with a secondary education (where the ratio between the lowest and highest averages for persons of equal skill engaged in different activities was 100 : 121), unskilled workers (100 : 126) and skilled workers (100 : 119). They are highest for university-level specialists (100 : 143), highly skilled workers (100 : 140) and specialists with an advanced level of education (100 : 135). Although these figures in principle relate to persons in the same skill categories, they obviously mask the differentials due to occupation; unfortunately there is no up-to-date information for average personal incomes on an occupational basis. It is also a fact that differences in average personal incomes can be found in the same or related occupations. This encourages labour mobility, which in turn makes for greater uniformity of income rates. It also argues an economic need for investment and better working conditions, which would tend to iron out differences in the total revenue of undertakings.

It has already been observed that personal income differentials are unsatisfactory from the economic point of view. About 70 per cent. of all employed persons fall in an income bracket ranging from 20 per cent. above to 20 per cent. below the general average. If this situation were plotted as a Lorenz curve, it would be obvious how far the pattern of income rates is affected by the earlier policy of wage equality. Further evidence can be found in the co-efficient of inequality, which over the past few years has been appreciably less than 20 per cent.² In an economy where personal incomes act as the fundamental and direct incentive to economic development this fact, when viewed in the light of the nature of the economic and social system, presents a problem, because differentials of this order do not afford an adequate incentive.

Cost of living

A further point that needs to be stressed in connection with personal incomes is that a great many problems have arisen in recent years on

¹ The present differentials are still relatively modest and do not provide sufficient incentives, as may be seen from the following example. Before the Second World War the ratio between an unskilled worker's wage and the salary of a factory manager varied between 1 : 14 and 1 : 20. It is now about 1 : 6 or 1 : 7 and may be even further reduced if the family budget is swollen by children's allowances.

² The co-efficient of inequality indicates how much of the money available for the payment of personal incomes would have to be redistributed for all workers to have the same average earnings. It is quoted only as an illustration of the present situation and not in any way as a yardstick for attempting to achieve greater equality. In view of the data available to the author the figure should be regarded as an approximation; it is based on the distribution of personal incomes by level of income (see *Indeks*, 1967, No. 4, op. cit.).

account of the increased cost of living. The reforms in the economic system were based on sweeping changes in price levels and price relationships, and the cost of living has risen fairly sharply since 1965, when the changes began to be made.¹ Real incomes have not kept pace with increases in nominal rates and this has reduced their effectiveness as an incentive.² One of the purposes of the reforms was to lay a foundation for stable prices and a stable cost of living, without which there could be no hope of applying the principle that the workers' real personal incomes should depend on the results of their work and be distributed on that basis. Signs of an improvement have been visible in recent months, mainly because economic policy measures have succeeded in bringing the purchasing power of money into line with the available funds. Otherwise, personal incomes are adjusted to the cost of living by the undertakings themselves, bearing in mind the revenue at their disposal. Provision has been made by law for pensions to be scaled up if the cost of living rises by more than 3 per cent.

Minimum and maximum rates of income

One final problem in connection with personal incomes is that of maximum and minimum rates. The reader will by now have realised that personal incomes are determined freely in the light of the financial position of the undertaking. In this sense there is no set maximum or minimum. Provision has nevertheless been made for a minimum personal income to be paid to all workers if their undertaking is in difficulties and cannot itself pay a sufficient income.

As regards higher incomes, in addition to the general taxes payable by all workers on a pro rata basis, a progressive tax is also levied on personal incomes above 20,000 dinars³ at the following rates:

¹ There is no system for the automatic adjustment of personal incomes to the cost of living. Basically, personal incomes reflect the total revenue available to undertakings, which, in their distribution of revenue, also decide what the rate of personal incomes is to be. If the cost of living rises, the undertaking itself decides in the light of total revenue whether personal incomes are to be increased. This explains why the changes in the cost of living in 1965 (when the economic reforms began to be applied) did not automatically result in higher incomes; a corresponding rise did not in fact take place until a few months later. Nor is there any automatic system of adjustment in the non-productive sphere, where revenue is derived from contributions paid out of workers' personal incomes. If, therefore, an increase in the cost of living leads to higher personal incomes in the productive sphere, there will automatically be more money available for the non-productive sphere, and hence for the payment of higher incomes there as well. Certain suggestions have been put forward for introducing an adjustment system that would in principle be the same for all undertakings, but no more than preliminary discussions have been held as yet.

² The cost of living has risen faster over recent years than labour productivity; this negative trend is obviously not desirable over a long period.

³ This figure is rising slowly in step with personal incomes generally, and the progressive tax becomes due when the worker's personal income reaches about twice the over-all average.

Income Distribution in Yugoslavia

Portion of income in excess of 20,000 dinars per year	Progressive income tax rate
Up to 10,000 dinars	3 per cent.
10,000-15,000 "	6 " "
15,000-20,000 "	9 " "
20,000-25,000 "	12 " "
25,000-30,000 "	15 " "
30,000-35,000 "	20 " "
35,000-40,000 "	25 " "
40,000-50,000 "	35 " "
50,000-60,000 "	45 " "
60,000-70,000 "	55 " "
Over 70,000 "	65 " "

It is not the aim of social policy in Yugoslavia to guarantee a minimum standard or to prevent those who wish to from earning more and more; all incomes are a reflection of the worker's job and the results of his work, and differentials are consequently attributable to differences in work performed. Basically it is in the interests of society to develop the country's economic potential and to encourage workers to earn more, rather than to safeguard the lowest income rates by a protective policy of redistribution.¹ A policy of this kind is actually unnecessary in Yugoslavia, because the general level of personal incomes is well above what might be regarded as the minimum. Furthermore, it is felt that at this stage the lowest prevailing rates of income are not merely undesirable; they should be eliminated because they point to a low standard of efficiency and productivity, and undue social concern for them might in fact have the effect of shielding unproductive methods. It is estimated that the income levels of about 10 to 12 per cent. of the labour force are still unsatisfactory, when compared with the standard of living enjoyed by the general population. Hence the need—which the reforms are designed to meet by economic methods—to change the whole pattern of production and so lay the foundation for higher incomes generally and the disappearance of the lowest incomes in particular.

Income distribution policy until 1970

The income distribution policy to be followed in the next few years has been laid down in the development plan for 1966-70², which defines

¹ Various measures have been taken to standardise earnings on the basis of general economic progress, primarily through long-term investment policies and the planning of investment. The low earnings in the underdeveloped areas are a problem apart, but a special federal fund has been set up to provide such areas with development credits. Various other measures have been taken in this connection: money has been made available for the modernisation of existing industries, easy terms have been arranged and so on. Action has been taken in many different ways, but every possible effort is being made to apply a progressive economic policy.

² *Društveni plan razvoja Jugoslavije 1966-70* [Social plan for the development of Yugoslavia, 1966-70], Biblioteka Savezne Skupštine, Series III, Vol. 7-8 (Belgrade, 1966).

the nation's development policies and programmes including those required for income distribution as a result of the reforms begun in 1965.

The plan takes as its point of departure the economic conditions created by the reforms (in the field of prices, taxes influencing the distribution of income between the productive and non-productive spheres, tariff and credit policies, etc.) and the other consequential changes that will be made in the course of the five-year period, and on this basis lays down the main lines of future income distribution policy, which are as follows.

Over the five-year period income will be redistributed to the advantage of undertakings, which will thus have money to finance industrial expansion. It is estimated that by the end of the period undertakings will have at their disposal more than 65 per cent. of total revenue and, together with credits available through the banks, about 70 per cent. of the available investment capital.

This is expected to encourage more efficient business management and so, in practice, to provide a greater margin for the redistribution of national income to the workers in the form of personal incomes. The rate of accumulation is expected to decline by 1970, while that of consumption will increase, thereby restoring the necessary balance. With national income rising by about 7.5 to 8.5 per cent. per year, it is hoped that personal consumption will increase by 8.5 to 9.5 per cent. and saving by 6 to 7 per cent. There will also be a slackening in the growth of expenditure on administration and defence (i.e. excluding the social services, the cost of which will have to rise in line with increasing personal consumption).

This process of redistribution will, of course, be gradual. The forecast in the plan is that most of the changes will take place in the latter half of the five-year period, since the first step will have to be to increase the efficiency of business.

The plan also lays down the action to be taken in the coming years to implement this policy. All the proposed measures respect the principle of guided development, while recognising the independence of self-managed undertakings. Programmes have been drawn up for social taxation; the foundations of a credit policy have been laid down; legislation has been passed providing for the Federation to contribute to the financing of investment; gradual changes are being made to the currency regulations and the system of foreign trade (with a tendency towards liberalisation); a policy has been approved for the accumulation of reserves, especially reserves of foreign currency, and so on. The aim of all these different measures is to pave the way for the income distribution policy described above.

In practice, of course, there are still many problems to be solved. The most important are certainly those connected with the reorganisa-

tion of the economic and social structure along self-management lines. The old system of direction and organisation by the State has almost completely disappeared, but there is still a need for co-ordination and co-operation between undertakings not only in matters of development policy and planning but also in such spheres as income distribution, where future developments cannot be determined solely by the workings of the market. At present consultations on development policy and income distribution take place in the economic chambers and in the associations formed by certain groups of undertakings and also in the trade unions. Even closer consultation and co-ordination has been achieved between integrated undertakings. Even so, the idea is gaining ground that the self-management scheme will need a far more ramified and comprehensive organisation if the functions hitherto (and, frequently enough, even now) performed by the State in matters of economic development are to be adequately discharged. The first steps along these lines are being taken at the moment and a great deal more can be expected in the years to come, given the exceptional importance of the problem at the present stage of national development.

In general, income distribution policy has great potentialities as an instrument for promoting economic and social development, consolidating the material basis of society, and solving the many problems of living standards created by limited resources. The coming years will reveal new ways of generating wealth to improve the living standards of the workers in their threefold capacity of producers, managers and beneficiaries of their own efforts.
