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TRENDS IN ECONOMIC RELATIONS IN BALKAN COUNTRIES*

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Development Trends

The Balkan triangle, which includes Albania, Bulgaria, Greece, Romania, Yugoslavia, and part of Turkey, is located at the crossroad of three continents-Europe, Africa and Asia. It incorporates a sample of different economic systems. Greece and Turkey follow the market or Western economic model; while the others follow the centrally planned, or Eastern economic model, with some varieties. Bulgaria and Romania follow, more or less, the Soviet Model; tiny Albania tends to imitate the Chinese; while Yugoslavia follows a peculiar model of a mixed market and planned economic system. From that point of view, recent economic and socio-political trends in this peninsula are of considerable interest.

The main problems of the economies of Greece, Turkey and, to some extent, Yugoslavia, are those that plague any other market economy. These problems are those of inflation and unemployment which stem primarily from economic fluctuations. In the upswing stage of the economy, factor imbalances and sectoral bottlenecks lead to price increases which, in turn, reduce the power of the monetary unit of the country and create an economic and psychological environment for the next stage of the downswing movement. Policy measures intended to stimulate employment frequently lead to inflationary spirals. Anti-inflationary policies, in turn, slow down the economy and increase unemployment. This dilemma of trading-off inflation with unemployment is perhaps the most serious economic problem of the market economies, including those of Greece, Turkey and, to some

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extent, Yugoslavia. As these economies waver between the Scylla of unemployment and the Charibdis of inflation, policy makers in these countries may turn away from relying on the market mechanism and adopt control measures in order to correct undesirable economic trends.

The centrally planned economies of other Balkan countries, on the other hand, face the problems of low production incentives, inadequate consumer choices and inefficient resource allocation. Production incentives seem to be higher under private ownership than under state or public ownership, especially in agriculture and small scale industries. As *Aristotle* once said in criticizing *Plato's* ideal communist state, «*common ownership means common neglect*».

The performance of the market mechanism seems to be more effective in certain sectors of the economy where individual incentives play a vital role. In the agricultural sector, for example, peasants are more productive when they cultivate their own lots and exchange their products in a free market. Also, high productivity in retail stores and small-scale industry requires flexibility and the spark of incentive which the price mechanism provides. However, in large scale industries individual incentives under the market system are not much different from those existing under planning. The greater proportion of laborers and managers work for somebody else rather than their own establishment. For them, it does not make much difference if they work for a large private corporation or for a large state enterprise. Additional material or nonmaterial remuneration, to increase productivity, can be used by both the market and the planning systems. The question of incentives and productivity in middle-size industries, which constitute a large part of business enterprises in the Balkan countries, remains to be answered. It is a field that needs further research and exploration. The establishment of middle level corporations, the encouragement of private farm markets and vertical and regional decentralization of decision making, practiced to a large extent by Balkan planned economies recently, are measures which seem to support the trend toward convergence between market and planned economies.

The «middle of the road» process of development may be less painful and more instrumental in bringing these countries together by seeking out rapid growth with the least possible sacrifice of political and economic freedoms. Changes need not be made through revolution but perhaps through gradual evolution. Economic development brings more material satisfaction; and people who have their stomachs full may turn to more individual enjoyments of life rather than revolutionary insurrection.

Almost all the Balkan countries are at a stage of middle development, perhaps between the take-off or self-sustained stage and that of the drive-to-maturity. One can make a comparison by saying : they are neither infants nor adults but rather teenagers. Through the transfer of technology and capital from advanced countries, these economies can continue to achieve high rates of growth just as they have done in the past. The northern Balkan countries with their command economies, can continue to have high percentages of investment by withdrawing resources from consumers and placing these resources in the capital-producing sectors. Assuming a relatively constant capital-output ratio, as in the Harrod-Domar tradition, their rates of economic growth can be expected to be high. But their economies may end up with less consumer goods. Greece, on the other hand, which is considered one of the miracle countries among western market economies, is also expected to continue to achieve high rates of economic growth. On a per capita basis, all Balkan countries, with the exception of Turkey and perhaps Albania, are expected to continue to perform well because of high overall national growth rates and a low rate of growth in population.

From a sectoral point of view, agriculture, which may be considered the poor Cinderella in planned economies, is expected to turn in a poor performance in northern Balkan countries. This is because, firstly, as mentioned before, production incentives are low. Secondly, there is persistent emphasis on the industrial sector in these countries. Also, comparatively speaking, the sector of services is not contributing as much as the industrial sector in the developmental effort of the planned economies, but its importance is expected to increase as the transformation takes place gradually from the primary (agriculture) to the secondary (industry) and, finally, the tertiary (services) sectors.

Trade among the Balkan countries, which has already increased drastically in recent years, may speed up economic growth and create a favorable environment for further regional cooperation. Such cooperation, in turn, will create a market of more than 60 million people, enlarge production units and stimulate development through specialization and economies of scale. As a result of such developments, relative differences in regional endowments of natural resources, capital and labor may be reduced and eventually eliminated. Such an equilibrating process may hopefully lead to a gradual movement of scarce resources into the more promising sectors and regions so that relative differences in productivity and factor remuneration can be reduced.

Large enterprises, growing in number and size year after year, and subsidiaries of multinational companies that have established themselves gradually in almost all of these countries, require some autonomy from controls and more corporate authority over the market or planning mechanism. This may be considered another trend supportive of the economic convergence thesis and more regional and international cooperation, as Jan Tinbergen, John Galbraith and recently Angelos Angelopoulos have anticipated. In a private discussion I have had with Professor John Kenneth Galbraith, during the International Conference on the Future of Democracy in Athens, October 1977, he said that, eventhough he expects international trade to expand, he is not enthusiastic about the «convergence» of the economic systems in the near future. Such convergence may take place not through a conflict of opposites (thesis-antithesis) but through a peaceful synthesis of the market and planning systems. Furthermore, mechanization and computerization of production and distribution, introduced by large private or public enterprises, may reduce the need for individual and entrepreneurial incentives and prepare the ground for an easier and more permanent convergence. Also, the growing use of mathematical models of the input-output variety may help policy makers or planners to allocate available resources more effectively and thereby make direct controls less necessary.

Such trends in the Balkan peninsula may affect the nature of development in larger blocs of countries, as for example between the Common Market group in Western Europe and the Comecon bloc in Eastern Europe, or even between market economies and planned economies in general. Economic cooperation among the Balkan countries may prepare the way for closer relations with other countries operating with different economic systems. The outcome of such efforts may be used as a model or paradigm for other countries to follow, especially third world countries, which may try to combine the best elements of both market and planned economies.

Some important questions which need further exploration may be : are there acceptable economic models which can bring the Balkan countries closer together? With present, more or less, fixed production patterns and factor immobility existing in these countries, is it possible to achieve convergence in factor remuneration? What about convergence in a sectoral level, say in agriculture or industry and services? Are the sectoral capital-output ratios helpful tools in determining differences in productivity and possible trends of convergence or divergence between sectoral and regional efficiencies? To what extent does trade between these Balkan countries help the process of economic and even socio-political convergence?

Empirical Findings

During the postwar years, all the Balkan countries performed well in terms of growth in total production (more than 6 percent per year, on the average), as Table 1 indicates. From a sectoral point of view, agriculture performs poorly in all countries considered. The Balkan planned economies do better, on the average, in industrial growth compared to the market economies of Greece and Turkey but they do not do so well in the area of services. In construction, Greece has the highest rate of annual growth, followed by Romania and Bulgaria; while in transportation there is not much difference among all these countries.

Greece had the highest per capita income or GDP ($2140 in 1974), followed by Bulgaria and Yugoslavia ($1200), Turkey ($757), and Albania ($530). Comparatively speaking, per capita income conceals greater inequalities in Greece and Turkey than in the other Balkan countries. However, there is a trend toward wage and price determination (income policies) by the respective governments, aiming at a better income distribution. Moreover, the gradual acquisition of corporate shares or company-partnerships and the spread of insurance, retirement and similar mutual funds to large segments of the population, although not extensive in these two countries, palliates the problem of inequality and tends to support the spread of what Schumpeter called people's capitalism, which may be considered as another path toward convergence.

Romania, Bulgaria, Yugoslavia and Greece have high rates of investment, measured as percentages of Gross Domestic Product (GDP). Almost all Balkan countries present upward overall investment trends, as Figure 1 shows.

Table 1 : Average rates of Growth of Gross Domestic Product (GDP), at Constant Prices.

Balcan Countries	Total Economy	Agricul.	Industry	Contr.	Transp.	Trade	Per Capita G
Albania							
1955 - 60	6.9	—0.5	18.9	18.3	22.5	7.7	3.6
1960 - 69	9.2	4.6	9.5	5.8	5.2	5.4	6.2
Bulgaria							
1950 - 60	9.1	3.3	15.7	10.5	16.4	8.1	8.1
1960 - 70	8.2	1.2	11.2	10.9	11.6	8.6	7.4
1971 - 75	7.9	2.2	9.2	6.0	10.0	15.2	7.1
Greece							
1950 - 60	6.0	4.4	8.8	9.9	5.7	6.7	5.0
1960 - 70	7.6	2.9	10.5	9.4	9.6	8.5	7.0
1971 - 75	5.1	3.0	12.4	15.5	12.5	8.7	4.4
Romania							
1950 - 60	9.0	3.5	12.7	13.4	11.3	1.4	7.6
1960 - 70	8.6	1.1	13.0	8.7	10.5	—4.3	7.6
1971 - 75	11.3	4.6	13.0	9.5	10.1	na	10.6
Turkey							
1950 - 60	5.8	4.1	6.0	8.1	9.9	5.1	2.9
1960 - 70	6.0	2.5	10.3	7.3	8.6	8.7	3.5
1971 - 75	7.4	0.2	11.8	4.4	8.0	12.1	4.5
Yugoslavia							
1952 - 60	9.2	4.5	13.3	3.3	11.3	10.0	8.0
1960 - 70	6.6	2.8	8.3	7.7	6.8	8.1	5.5
1971 - 75	6.2	4.2	7.6	1.6	5.9	6.7	5.2

Note : For some sectors fewer years were available. For Albania, Bulgaria, Romania, Net Material Product (NMP), instead of GDP.

Source : United Nations, *Yearbook of National Accounts Statistics*, International Tables, various issues.

» », *World Economic Survey*, Supplement, 1975.

» », *Monthly Bulletin of Statistics*.

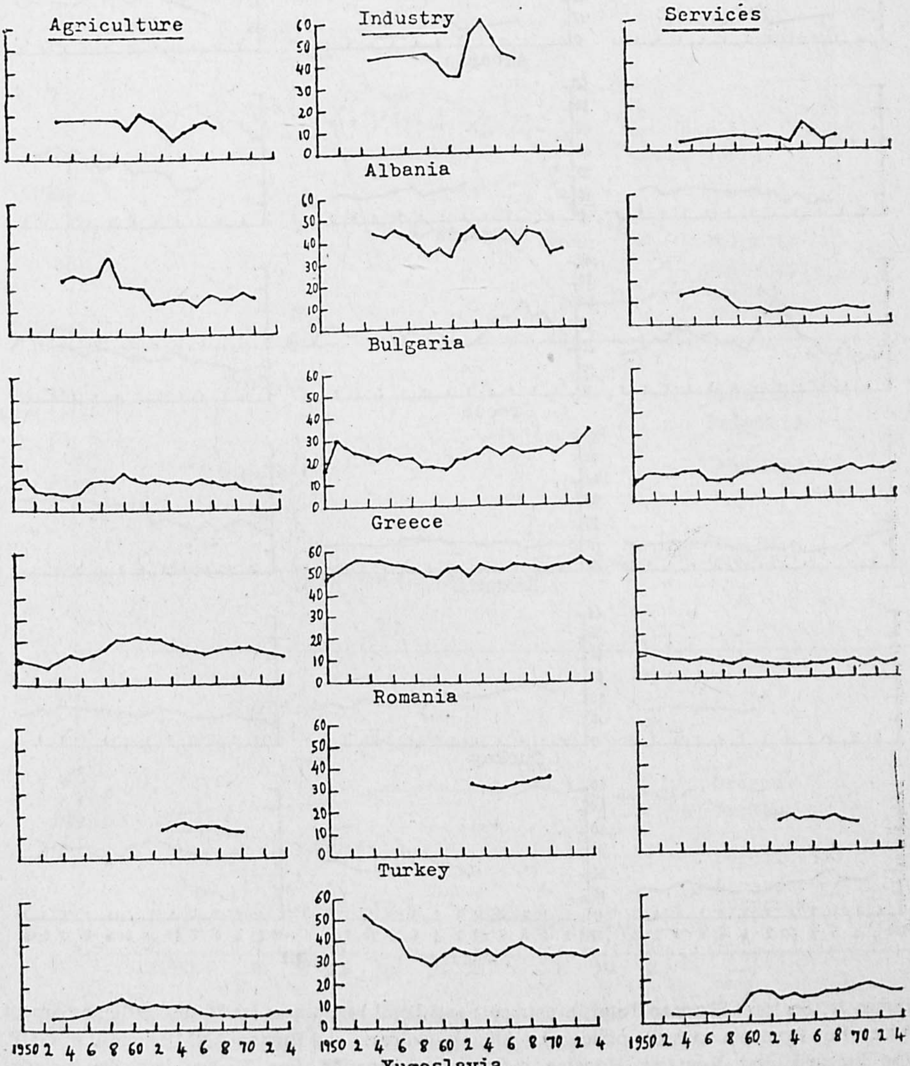
All countries considered, exhibit a declining percentage of investment in agriculture as contrasted with a constant or rising percentage in industry, transportation, housing, trade and other services. The planned economies of Romania, Albania, Bulgaria and Yugoslavia show high rates of industrial investment, mostly between 40 to 50 percent of total investment, while those of Greece and Turkey vary between 20 and 30 percent. However, Greece and Turkey have relatively high investment rates in housing and transporation. Such high investment rates in housing while investment rates are low in manufacturing present serious problems for the economy of Greece from the point of view of industrialization, urban concentration (especially around Athens and Salónica) and environmental protection. In recent years, development plans have been introduced with corrective measures, but limited results have been obtained with their implementation.

The proportion of particular sectors toward output or production (GDP) follow the same proportional pattern in sectoral investment. As Figure 2 indicates, the agricultural share declined throughout the postwar years (from around 15 to 30 percent) for all Balkan countries especially for Romania, with the exception of Turkey. During the 1970's, however, Greece, Turkey and Yugoslavia presented a constant or slightly rising agricultural share to output. As expected, the share of industry was for higher in Romania, Bulgaria and Yugoslavia (around 50 %) than in Greece and Turkey (about 20 %), but that of services was lower. Both sectors, industry and services, seem to present rising shares in recent years. This means that all Balkan countries followed, more or less, the general or universal trend toward a gradual transformation from agriculture to industry and services, although at a slower pace compared to middle or highly developed countries.

On the average, Yugoslavia and Greece used more capital per unit of output than the other Balkan countries. During the period 1961-74, the incremental capital-output ratio (ICOR) for the entire economy was close to 5 for Yugoslavia and 4 for Greece, as Table 2 shows [1]. Next was Romania (3.7), then Albania, Bulgaria and Turkey (around 3). All countries had high ICOR's in transporation and housing. They are capital-intensive sectors, while manufacturing (industry), trade and other services use proportionally large amounts of labor than capital. But this does not mean that it is better to invest more in manufacturing and trade services than in trains, buses or houses. Because, in order to determine whether investment is more productive in one or in the other sector, it is necessary to know the relative contri-

1. ICORs obtained through the regression of GDP on cumulative investment were not much different from the ones on Table 2 which were obtained through the ratio of additional capital ($\Delta K = I$) over additional output (Q), in five-year intervals, that is :

$$\sum_{t-1}^{t=5} I_t / Q_{t+5} - Q_t$$


Agriculture
Industry
Services
Albania
Bulgaria
Greece
Romania
Turkey
Yugoslavia
60
50
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30
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1950 2 4 6 8 60 2 4 6 8 70 2 4

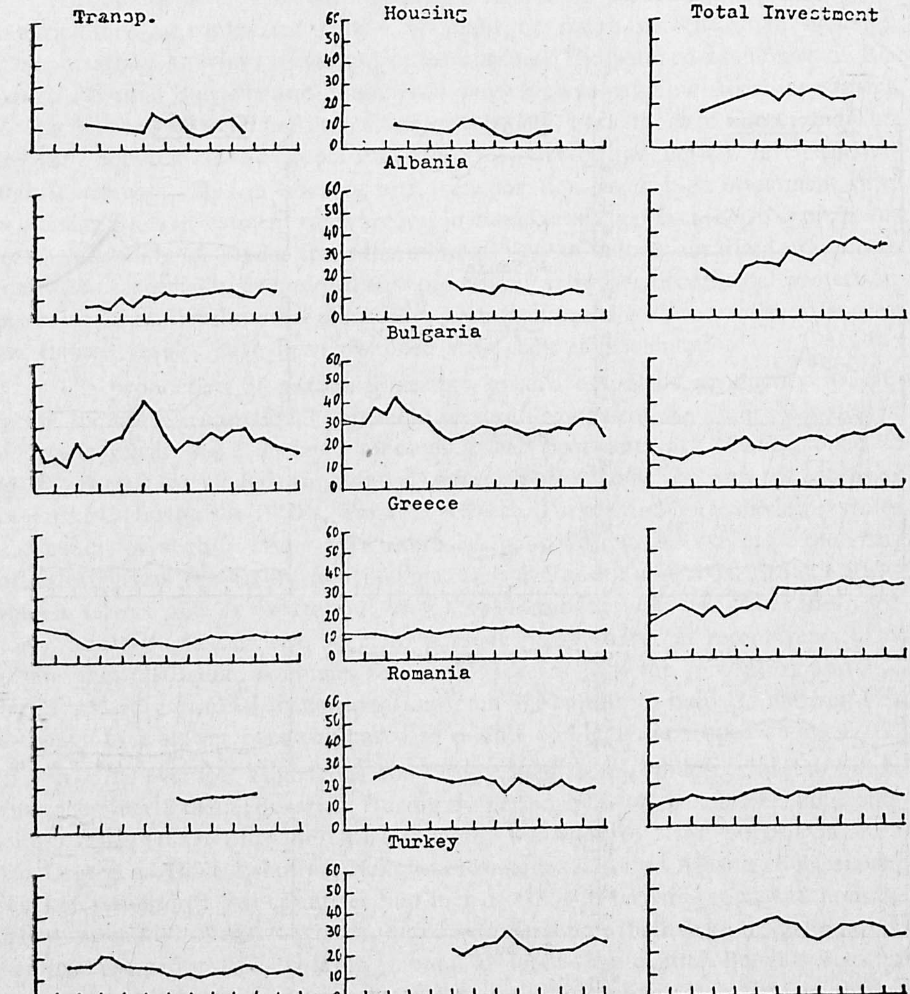

Figure 1 : Sectoral Share to Total Investment; and Total Investment (as % of GDP), at Current Prices. For Romania constant prices. For Albania, Bulgaria and Romania NMP instead of GDP. For Bulgaria and Romania Housing includes construction. For Turkey industry includes construction; and services pub. A.

Source : Organization for Economic Cooperation and Development, *National Accounts Statistics*; and United Nations, *National Accounts Statistics*.

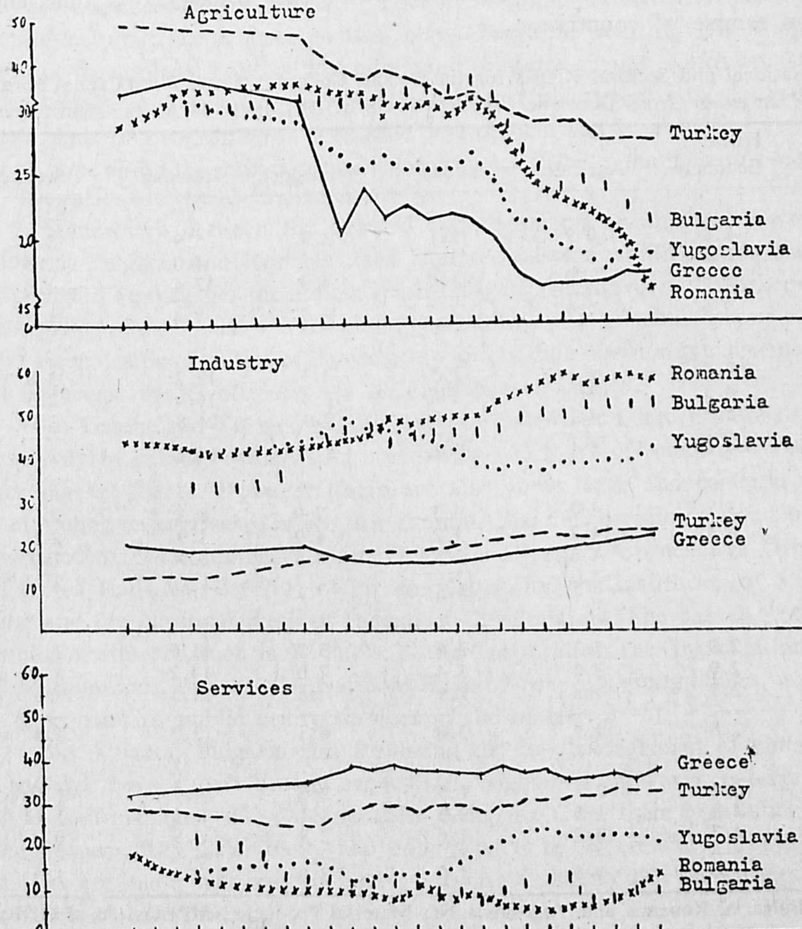

Figure 2 : Sectoral Share to Gross Domestic Product (GDP). For Bulgaria, and Romania Net Material Product (NMP) instead of GDP.

Source : Same as Figure 1; and Romania, *Yearbook*, 1976, pp. 51, 71.

bution of capital to output or income, in addition to ICORs [2]. It is apparent from Tables 1 and 2 that an inverse relationship exists between the growth rates of GDP and the ICORs, especially in agriculture and industry. This is so because investment is more stable variable than the rate of GDP, where changes can be caused by variations in employment or productivity within each country, over time, and across the sample of countries.

Table 2 : National and Sectoral ICORs for the Balkan Countries (Cross Fixed Capital Formation over Changes in Gross Domestic Product, GFCF/ΔGDP), 1961 - 74, at Constant Prices.

Countries	Entire Economy	Agricult.	Industry	Transport.	Housing	Services
Bulgaria						
1961 - 65	2.1	0.9	2.1	3.8	5.9	3.5
1966 - 70	2.2	5.8	1.7	2.5	4.0	1.6
1971 - 74	4.4	1.9	1.4	4.9	12.4	—1.3
Average	2.9	2.9	1.7	3.7	7.4	1.3
Greece						
1961 - 65	2.4	3.1	1.5	7.3	12.2	1.8
1966 - 70	4.3	8.2	1.8	8.4	16.4	2.5
1971 - 74	5.6	4.1	3.0	9.9	14.8	3.1
Average	4.1	5.1	2.1	8.7	14.5	2.5
Romania						
1961 - 65	3.7	3.2	3.3	7.9	8.3	2.7
1966 - 70	4.8	—14.3	3.2	4.9	3.9	2.6
1971 - 74	3.4	4.6	3.4	8.4	8.9	1.0
Average	3.7	—6.5	3.3	7.1	7.0	2.1
Turkey						
1961 - 65	2.8	5.3	2.6	5.7	15.6	1.4
1966 - 70	2.9	3.0	3.4	7.0	14.2	1.4
1971 - 74	2.7	na	2.9	na	11.5	na
Average	2.8	4.1	3.0	6.3	13.7	1.4
Yugoslavia						
1961 - 65	5.4	0.7	1.5	2.6	4.7	1.1
1966 - 70	4.8	1.5	2.5	4.1	4.1	1.1
1971 - 74	4.7	0.7	1.6	2.3	3.9	0.9
Average	5.0	1.0	1.9	3.0	4.2	1.0

Note : For Bulgaria, Romania and Yugoslavia Net Material Product (NMP) instead of GDP; housing includes construction. For Bulgaria (NFCF), current prices. For the sectoral ICORs of Greece 1960 - 64; industry includes only manufacturing For Turkey, industry includes construction; investment is composed of machinery and transport equipment for 1971 - 4; services include public administration. For Yugoslavia, sectoral ICORs at current prices; entire economy NFCF.

Source : Same as Figure 1,2. For Greece, 1960-64, Nicholas Gianaris, «International Differences in Capital-Output Ratios,» *American Economic Review*, June 1970, pp. 470 - 76.

2. Or, $r = \frac{\Delta R/\Delta Q}{ICOR} = \frac{\Delta R/\Delta Q}{\Delta K/\Delta Q} = \frac{\Delta R}{\Delta K}$ = Marginal Rate of Return

Where R is the relative contribution of capital to output. Thus, assuming $\Delta R/\Delta Q = 40\%$ and ICOR = 4, we have $r = 40\% / 4 = 10\%$.

In recent decades, Greece and Turkey have adopted annual and five-year plans which, although less centralized than those of the other Balkan countries, mark a significant departure from the market oriented economy. Such medium-term development plans may be of practical importance in the public sector but they are considered mere decorative documents in the private sector. There is more form than substance to these postwar plans. From the point of view of implementation of these plans, political logrolling and pressure groups, which are significant in these two countries, prevent the channeling of investment into planned targets. Such plans or programs for economic development can be classified as a sort of pious hope about the macroeconomic movements of the economy with a high degree of hesitation in their implementation.

Somewhere between the detailed and command or imperative planning of Albania, Bulgaria and Romania, and the conventional or decorative planning of Greece and Turkey, lies the indicative planning of Yugoslavia with worker-managed enterprises and a mixed market-planned economy. The Yugoslav example indicates that there are possibilities of convergence and middle-position movements towards an economic model attractive to all countries concerned.

In Greece and Turkey, production and distribution enterprises are operated primarily by private owners and companies which are directed, more or less, by free market forces. However, there are also some large, independent, public or semi-public enterprises. Greece, for example, has in operation a good number of independent public enterprises, such as the Olympic Airlines, the Organization of Greek Railways, the Port of Piraeus Authority, the Institution of Social Security, and the National Bank of Industrial Development. She has also other semi-public institutions, such as the Public Power Corporation, the Organization of Greek Telecommunications and the National Bank of Greece, among others, which cover a large part of public utility services in the country.

In Albania, Bulgaria and Rumania, the top management of enterprises is appointed by a superior state agency. In Yugoslavia, however, enterprises seem to be self-managed. They derive their decisions from their own labor force. In that respect, they differ from their counterparts in Greece and Turkey, where decisions are made primarily by and profits are distributed to the owners or shareholders of enterprises.

All Balkan countries provide free public education at all levels, with minor exceptions in Greece and Turkey. Almost all countries have about a 10 percent illiterate population, except Turkey with 45 percent. Turkey also has the highest number of students per teacher (33 in 1974) for the first level of education, followed by Greece (31) and Yugoslavia (23). However, Greece has the lowest level of annual educational expenditures as a percentage of GNP (1.6)[1], while Romania has the highest (7.6 percent).

1. In higher education, for example, a university professor is, at times, responsible for as many as 5000 examinations. See «A Survey of Greece,» *The Economist*, September 20, 1975, p. 18; and UNESCO, *Statistical Yearbook*, 1974, table 6.1.

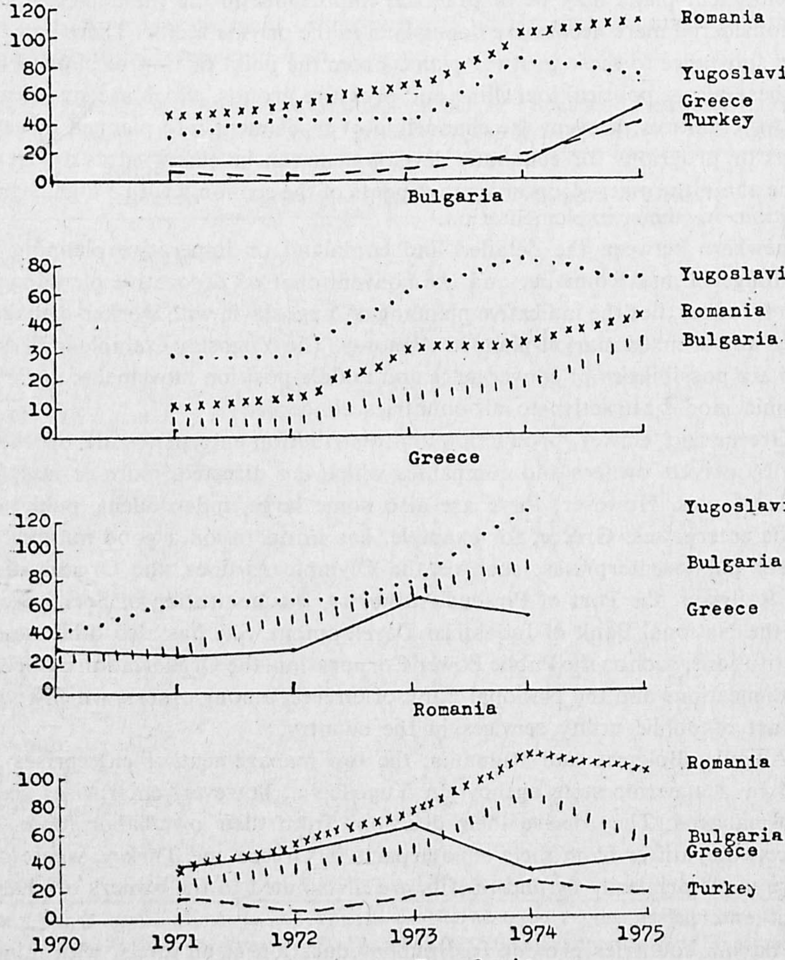

Figure 3 : Exports (F.O.B.) among Balkan Countries, in Millions of U.S. Dollars.

Source : United Nations, *Yearbook of International Trade Statistics*, 1975.

Although Balkan countries produce mostly competitive products, such as metal ores, tobacco, vegetables, textiles, machinery, and chemical products, there was a rapid increase in trade among them during recent years. As Figure 3 shows, exports among these countries increased for almost all of them between two to four-fold, during a period of only five years (1971-75) [1]. This was particularly so for Greece and her northern neighbors, as well as between Bulgaria and the surrounding countries.

Concluding Remarks

There is a recent trend toward more cooperation among the Balkan countries with their different economic systems. The dilemma of unemployment and inflation, as well as the problem of a better distribution of income and wealth, which the market economies of Greece and Turkey have been facing recently, tend to force a greater degree of state intervention. On the other hand, low production incentives (especialy in agriculture and small scale industries), inadequate consumers satisfaction and the problem of more efficient resource allocation in centrally planned economies of other Balkan countries tend to force greater decentralization and a movement toward the free market mechanism. Such concurrent trends seem to justify some of the conclusions of the convergence theory between market and planned economies.

It is difficult to expect, in the near future, what the supporters of convergence suggest (that is, an optimum role for government and an optimum combination of the public and private sectors in the Balkan countries). However it is equally or more difficult to accept the arguments of the extreme apologists of the one or the other system that «convergence» is a camouflage for subversion and ideological subordination. On the contrary, there are indications of economic cooperation and trade coordination which may submerge in the long run national differences between these countries and gradually prepare the ground for common policies of development and eventual convergence. Extreme ideologies of individualism and collectivism seem somehow to have capitulated to each other, in this area, or are expected to move in that direction during the coming years.

Recent trends in allocation of investment and sectoral transformation from agriculture to industry and services present common problems which require similar policies. A more effective development strategy is expected to lead these countries to the formation and implementation of common regional and sectoral projects.

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1. Despite their difficulties and rivalries, representatives of Bulgaria, Greece, Romania, Turkey, and Yugoslavia met in Athens in January 1976 to explore the possibilities of widening economic and cultural relations. Also, the resumption of diplomatic relations between Greece and Albania in May 1971 has opened the door to more trade between these two countries, especially after the trade-agreement of March 1977.

There is always the possibility of hearing, from time to time, the sirens' songs of regional or political disputes and frictions would, most probably, lead to greater economic isolation, restrictions on recource movements, maıket contraction, less specialization, loss of potential economics from large scale production, more damage to the environment because of lack of coordinated policies, and finally less economic and cultural development.

The present tendencies toward better economic and diplomatic relations and the concurrent rising trade among these countries are encouraging indications of further regional cooperation, higher factor productivity and improvement in living conditions for the peoples of the Balkan peninsula.

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