



*Albanians drawing water
from a spigot on a state
farm in central Albania
Courtesy Charles Sudetic*



*Breadline in Elbasan
Courtesy Fred Conrad*

of other Balkan states in 1991. Many of these deaths were caused by low birth weight. Because of food shortages and inadequate prenatal care, the proportion of premature births increased from 7 to 11 percent between 1987 and early 1992. Hospitals lacked essential medicines and equipment; the University of Tiranë Hospital, considered the best in the country, had only one incubator.

The United Nations Children's Fund (UNICEF) reported that fifty-seven out of every 1,000 Albanian mothers died during pregnancy or childbirth—roughly ten times the average rate in Western Europe. Contraceptives could not be obtained. Abortions, which were legalized in the summer of 1991, were performed with poorly sterilized instruments, as were Caesarean sections. Patients at Tiranë's maternity clinic sometimes had to share beds or bring their own food.

The food supply—a perennial problem because of poor soil, occasional drought, primitive methods of cultivation, and a lack of readily accessible resources—did not keep pace with population growth under communist rule. The typical diet lacked protein and other vital elements. Families, regardless of size, received meager rations of meat, usually three to four kilograms per month. Eggs, cheese, sugar, and coffee also were rationed. Nonrationed goods, such as milk, green vegetables, and fruit, were often difficult to come by, and émigrés reported having to stand in line many hours to purchase them. Farmers relied on small private plots of land to supplement their provisions.

The economic disintegration of the late 1980s and early 1990s, hastened by a severe drought in the summer of 1990, a general strike the following year, and widespread food riots, compelled the country to become totally dependent on foreign food aid. Jolted by a flood of Albanian refugees, Italy delivered 83,000 tons of food to its eastern neighbor between September 1991 and January 1992. Additional emergency aid was received from Germany, Switzerland, the United States, and other countries, as well as from international relief agencies.

Housing

Official sources indicated that, between 1945 and 1985, nearly 165,000 apartments were built by the state and more than 232,000 houses were constructed by individuals with state assistance. Nevertheless, living quarters became increasingly overcrowded because of rapid population growth. Families of four or more persons often lived in a single room. Newlyweds seeking a private home faced waiting periods of up to ten years. War and natural catastrophes added to the burden. During World War II, some 35,000



*Housing blocks near the town
of Lushnjë in central Albania
Courtesy Charles Sudetic*



*Albanian women on a
state farm washing
clothes at an open drain
Courtesy Charles Sudetic*

dwellings had been destroyed. About 10,000 homes were damaged or destroyed by earthquakes in 1967 and 1969, and a powerful earthquake in 1979 demolished about 18,000 buildings and left 100,000 people homeless.

Rural houses were small, sparsely furnished, and simply constructed of natural rock or stone. Most had one or two rooms, and a hearth or sometimes a stove for heating and cooking. Urban houses and apartments usually were small; many lacked central heating. Kitchens and toilet facilities in apartments had to be shared by three or four families.

Social Insurance

The noncontributory social insurance program, administered by state organizations, included retirement pensions and compensation for disability and maternity leave. Funds for social insurance payments came from the state budget. Total expenditures increased from 13 million leks (for value of the lek—see Glossary) in 1950 to almost 1.8 billion leks in 1987, according to official statistics.

The government had granted retirement benefits to workers, including employees of state farms, since the late 1940s. Depending on job type, full retirement pensions (70 percent of an individual's average monthly earnings during any three consecutive years within the last ten years worked) were awarded to male workers between the ages of fifty and sixty after twenty to twenty-five years of work, and to female workers between the ages of forty-five and fifty-five after fifteen to twenty years of work. Pensions ranged from L350 to L700 (US\$52 to US\$104) monthly. Workers who reached retirement age but had worked less than the number of years required to receive full pension payments were eligible for partial pensions, computed on the basis of time in service. After the full collectivization of agriculture in 1972, social insurance benefits were extended to the peasants. Retirement pensions were granted to male peasants at the age of sixty-five, after twenty-five years of work, and to female peasants at the age of fifty-five, after twenty years of work.

Disability payments were made at the rate of 85 percent of average earnings for the last month worked; persons with less than ten years' service received 70 percent; temporary or seasonal workers received less. When a disability was directly work-related, compensation was granted at the rate of 95 percent for most trades and 100 percent for miners.

Pregnant women were entitled to a total of six months' leave. During that period, they received 75 to 95 percent of their regular earnings, depending on length of service, and were permitted to

work reduced hours after returning to their jobs. Subsidized day-care facilities were provided for children six months of age or older. A woman could remain at home for limited periods to care for a sick child and collect 60 percent of her average pay. If it was considered medically necessary for a mother to stay in the hospital with her sick child, she received 60 percent of her average pay during the entire hospital stay.

In the early 1990s, the education and health care systems, indeed the structure of Albanian society, continued to deteriorate. Albanians began looking toward democratic opposition groups to replace their communist rulers and to lead the country toward a modern, civil society.

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Albania: A Socialist Maverick, by Elez Biberaj, contains a good overview of contemporary Albanian society. A broad range of statistical data on past and present social structure may be found in the *Statistical Yearbook of the People's Socialist Republic of Albania*, and occasionally also in articles published by the English-language monthlies *New Albania* and *Albania Today*. Albania's diverse cultural history is explored in Stavro Skendi's *Balkan Cultural Studies. Conscience and Captivity: Religion in Eastern Europe*, by Janice A. Broun, provides valuable insights into the country's religious heritage and describes the communist regime's campaign against religion. Human rights violations are meticulously documented by the Minnesota Lawyers International Human Rights Committee in its 1990 report, *Human Rights in the People's Socialist Republic of Albania*. For a comprehensive analysis of Albania's postwar rural transformation, Örjan Sjöberg's *Rural Change and Development in Albania* is recommended. The *RFE/RL Research Report* (formerly Radio Free Europe/Radio Liberty's *Report on Eastern Europe*) regularly reviews recent sociopolitical and socioeconomic developments in Albania and neighboring Kosovo. (For further information and complete citations, see Bibliography.)

Chapter 3. The Economy



Albanian women working at computer terminals

EUROPE'S POOREST NATION by every economic measure, Albania has been isolated and underdeveloped for centuries. Economists estimated the gross domestic product per capita at about US\$450 in 1990, a figure that placed Albania below Lesotho and above Sri Lanka as the world's thirty-second least developed country. Ironically, Albania possesses significant fossil fuel and mineral deposits, including oil and chromite, as well as a topography and annual rainfall suitable for generating hydroelectric power. Large-scale drainage projects begun after World War II turned marshes into fertile fields in Albania's lowlands, and the country's Mediterranean climate offers ideal conditions for cultivating fruits and vegetables. But Europe's highest birth rate and a mismanaged post-war industrial expansion, which failed to create enough productive jobs to absorb the flood of people entering the work force, left Albania with an abundance of literate but unemployed and unskilled workers. At the start of the 1990s, thousands of desperate Albanians fled abroad seeking jobs because of the wretched standard of living and limited economic opportunity at home.

Albania's communist economic system, with its strict central controls, egalitarian incentive system, and bias toward heavy industry, collapsed in the early 1990s, idling almost all of the country's production lines. In early 1992, the government was piecing together a new, market-based economic mechanism. The People's Assembly passed many new laws on privatization of state property and protection of free enterprise, private property, and foreign investments, and lawyers drafted new civil and commercial codes, banking and tax laws, and labor, antitrust, and social security regulations. The structure of Albania's productive capacity was clearly going to change radically as the government broke up collective farms and privatized state lands and enterprises and as managers adjusted to free-market conditions. Nevertheless, agriculture was certain to remain the economy's cornerstone for the foreseeable future. The farm sector produced over 30 percent of Albania's net material product (see Glossary) and employed over 50 percent of the work force before the centrally planned economy buckled. However, farm output failed to keep pace with the demands of Albania's burgeoning population, and the entire sociopolitical system began to crumble when the farm sector could no longer supply adequate food to urban areas or raw materials to factories.

The orthodox Stalinists of the ruling Albanian Party of Labor (APL) worshiped heavy industry and for decades offered it investment monies, which usually flowed from foreign coffers. That investment brought expansion and diversification to the country's entire industrial sector, but production was constrained by the mismanagement and inefficiency that characterize communist systems. Before the communist economy imploded in 1990, industry accounted for over 40 percent of Albania's net material product and employed about 25 percent of the nation's work force. The industrial sector's most important branches were petroleum production, electric-power generation, mining, engineering, and light industry. The transportation and trade sectors had registered improvements in absolute terms over prewar levels of development, but both lagged behind European standards.

Starting in the 1920s, Italy, Yugoslavia, the Soviet Union, and China in turn supported the Albanian economy before war or political spats prompted Tiranë to break off each relationship. Enver Hoxha, first secretary of the APL, launched a policy of strict autarky when the country's last foreign patron, China, stopped aid infusions in 1978. Rapid population growth and lagging farm and industrial output, however, soon brought hunger and economic chaos. Tiranë delayed significant economic reform until popular discontent threatened to explode into revolution. By 1991, a chain reaction of supply shortfalls had paralyzed the entire economy, and Albania cried out for humanitarian aid, this time from the West. Albania's opening to the world had a major impact on the freedom of enterprises and people to participate in foreign trade, but the country's escalating foreign debt and currency problems rendered it incapable of importing badly needed materials and equipment.

The totality of the collapse of Albania's communist economic system made introducing free-market reforms more difficult, in the view of some Western authorities, than in any other East European country. So critical was the need for heating fuel in the winter of 1991-92 that people stripped wood from park benches, and the nurses at an orphanage in Shkodër locked up branches and twigs to keep them from thieves. Mobs stormed warehouses, factories, bakeries, flour mills, shops, and hotels, taking everything they could carry and destroying much of what they could not. Italian soldiers escorting food convoys found that they had to guard their own garbage trucks after armed gangs descended on the vehicles to pick through their contents. Thieves stole medicine, medical equipment, and even ambulances from hospitals. Fires in storehouses and factories burned out of control because fire fighters had no equipment

in good repair. Opposition political leaders blamed the communist APL for instigating unrest in hopes of demonstrating to the impressionable that the isolation and apparent order of the old regime were better than the present chaos and the ways of the wider world.

Despite Albania's economic dysfunction and backwardness, Western economists predicted that the country stood a good chance of prospering if its government could restore order and take advantage of the country's fertile lands, relatively rich mineral resources, favorable location, potential for tourism, and generally literate work force.

Albania's communist regime published few economic statistics, and Western scholars found that the sparse data made available were often neither accurate nor consistent. No statistical yearbook was issued for fourteen years after 1974, and data on performance of the oil industry were treated as a state secret after production began falling in the 1970s. Observers specializing in the Albanian economy have posited that the communist government released data only when performance results were positive and that data on aggregate economic growth were not published when they were close to or below the population growth rate.

Economic Policy and Performance

Despite significant progress in the twentieth century, Albania still lagged far behind the other European nations economically. A unified economy did not exist before the early 1920s, and the succession of foreign patrons had punctuated the country's erratic economic development since then. Heavy-handed domination by fascist Italy between 1925 and 1943 brought Albania scant economic progress. During its postwar rule of forty-six years, the Albanian government turned first to Yugoslavia, then to the Soviet Union, and then to China for assistance in imposing a Stalinist economic system. Enver Hoxha and his protégés used economic policy primarily to maintain political power and only secondarily to stimulate growth. They insisted on rigid centralization and forced industrialization despite Albania's small size and lack of skilled workers, able administrators, and farmers capable of producing key raw materials and enough grain to feed the population. Albania's leaders prescribed autarky when China shut off aid in 1978, but galloping population growth and lagging farm output rendered the policy and the regime bankrupt. Tiranë delayed radical economic reform until public discontent spilled onto the streets. By 1991, supply shortfalls had paralyzed the entire system.

The Precommunist Albanian Economy

The Albanians faced daunting developmental challenges when they declared independence in 1912 after some 500 years as part of the Ottoman Empire. Their medieval, patriarchal social structure necessarily stunted the growth of anything beyond the most rudimentary economic relationships. Subsistence and feudal agriculture so dominated Albania's economy in the state's early years that even trained carpenters, joiners, and blacksmiths were in short supply. Each family generally produced its own bread and meat as well as flax, wool, and leather. Many peasants used wooden plows and knew little about manures, artificial fertilizers, or crop rotation; most had no incentive to produce cash crops because they had no way to transport their output to a reliable market. A complete absence of good roads made interregional commerce almost impossible. The trip from Tiranë to Vlorë, for example, involved a sea journey; and although Shkodër's tradesmen exported skins by boat to Italy, their compatriots in Gjirokastër had to cross the Strait of Otranto to buy them from the Italians (see fig. 1). There were also no roads across the Greek or Yugoslav borders capable of handling commercial traffic.

Albania's leaders lacked accurate data on the country's agricultural output, as well as on the extent and characteristics of its farmland, livestock herds, and oil and mineral deposits.

President Ahmed Zogu (later king Zog) sought Italian protection for Albania in 1925, entering into economic agreements that Italy used to exploit Albania's oil, chromite, copper, and iron-ore reserves. Albania remained backward, however. In the late 1920s, agriculture contributed over 90 percent of the national income although only 8 percent of the country's land area was under cultivation and the entire farm sector could boast only thirty-two tractors (see table 3, Appendix). Even in 1938, Albania's industrial output amounted to less than 4 percent of national income, and annual per capita industrial production totaled about US\$8. However, Italy did carry out extensive geological exploration, gauging for the first time the extent of Albania's mineral wealth. The Italians also improved Albania's infrastructure, modernizing Tiranë and constructing 1,500 kilometers of roads and several hundred bridges as well as Durrës harbor. World War II dealt Albania's economy severe setbacks except in the mining sector, where the mineral-hungry Italian and German occupying forces actually added to productive capacity. Durrës harbor and many of the country's roads and bridges, however, sustained damage during the war.

Imposition of the Stalinist System

As World War II drew to a close, Albania's provisional government, run by the Albanian Communist Party, predecessor of the APL and a communist-dominated front organization, wasted little time in taking full control of the economy. In December 1944, shortly after coming to power, the regime adopted new laws providing for strict state regulation of all industrial and commercial companies as well as foreign and domestic commercial relations. A "war-profits tax" and laws allowing the seizure of property belonging to anyone labeled an "enemy of the people" weakened the country's minuscule middle class. In early 1945, the Albanian authorities confiscated Italian- and German-owned assets, revoked all foreign economic concessions, nationalized all public utilities and means of transportation, and created a network of government-sponsored consumer cooperatives. Heedless of Albania's needs and comparative advantages, the party leaders followed Stalinism's dictates and pushed the development of heavy industry over agriculture and light industry.

The regime wooed the peasantry by curbing the power of the large landowners and granting concessions to peasants and sharecroppers. In January 1945, the new leaders canceled outstanding agricultural debts, slashed land-use charges by 75 percent, nationalized water resources, and offered peasants an opportunity to purchase irrigation water from the state at nominal fees. The Agrarian Reform Law of August 1945 destroyed what remained of the economic might of central and southern Albania's large landowners, replacing their sprawling estates with about 70,000 small farms. In effect, the government nationalized all forests and pasture lands and expropriated without compensation land belonging to individuals who had nonfarm sources of income. The land law allowed farmers to keep up to forty hectares if they earned their income exclusively from farming and worked the land with machinery. The landholdings of religious institutions and farmers without machinery were limited to twenty hectares. Landless peasants and people who owned less than five hectares of property received up to five hectares per family and additional hectareage for married sons who were household members. In some cases, the law required the new landowners to make nominal compensation to the former owners.

Another agricultural reform law enacted in 1946 limited rural property holdings to five hectares of arable land. In April of that year, military tribunals began giving prison sentences to peasants caught hoarding grain. The state also nationalized farm tools and draft animals, banned land sales and transfers, and required

peasants to obtain government permission to slaughter animals. In June the authorities ordered peasants to deliver relatively high quotas of grain crops to state procurement centers at low, officially set prices. Using carrot-and-stick techniques, the government attempted to persuade peasants to join collective farms. Despite the fact that collective-farm members paid lower taxes and had smaller production quotas, the campaign succeeded in convincing only 2,428 peasant families to join collective farms by 1948. The government admitted that the campaign had failed. Poor yields, purges, and coercion characterized the agricultural sector for the next three years, and grain shortages became a chronic problem.

By early 1947, the government had in place much of the institutional framework required for a Stalinist economic system, nationalizing industries and seizing control of foreign trade and most domestic commerce. A currency reform delivered another blow to the embattled middle class. In April 1947, the Economic Planning Commission drew up the country's first economic plan, a nine-month set of selected production targets for the mining, manufacturing, and agricultural sectors denominated in terms of physical output rather than money. Albanian enterprises also began introducing the Soviet accounting system, and party zealots and teachers set about indoctrinating the population with the economic catechism of Marxism-Leninism.

Dependence on Yugoslavia, 1945-48

After World War II, just as before, Albania's economy relied heavily on foreign assistance. The United Nations Relief and Rehabilitation Administration granted Albania US\$26.3 million in aid during 1945 and 1946, including large amounts of seed and enough grain to feed a third of the population in 1945; the United States supplied US\$20.4 million of the United Nations relief. In July 1946, Albania and Yugoslavia signed a treaty of friendship and cooperation, which provided for establishment of an agency that would coordinate the two countries' economic plans. The agreement also called for the creation of a customs union and the standardization of the Albanian and Yugoslav monetary and pricing systems. A series of technical and economic agreements soon followed. In November, Tiranë and Belgrade signed an economic cooperation accord and an agreement on the creation of jointly owned companies. At least on paper, these documents transformed Albania into a Yugoslav satellite; but their implementation quickly ran into snags.

In early 1947, Tiranë began voicing serious objections to the economic arrangements with Belgrade, taking exception to the way

the Yugoslavs weighed Albanian investment in the jointly owned companies and calculated the value of Albanian exports of raw material to Yugoslavia. The Albanians also charged that Yugoslavia's shipping enterprise was working to usurp control of their country's foreign trade. Tiranë sought investment funds to develop light industries and an oil refinery; Belgrade wanted the Albanians to concentrate on agriculture and the extraction of raw materials. Despite its objections to the economic relationship with Yugoslavia, in early 1948 Tiranë launched a one-year economic plan designed to bring Albania's economy into step with Yugoslavia's. But Albania abruptly cut economic links with its neighbor after the Soviet Union expelled Yugoslavia from the Cominform (see Glossary) in June.

Dependence on the Soviet Union, 1948-60

After breaking with Yugoslavia, Albania turned toward the Soviet Union, forming a twelve-year relationship. In September 1948, Moscow stepped in to compensate for Albania's loss of Yugoslav aid, and Albania's factories quickly became dependent on Soviet technology. Anxious to pay tribute to Joseph Stalin personally, the authorities in Tiranë implemented new elements of the Stalinist economic system. The regime introduced a Soviet-style three-step process for drawing up the national economic plan and adopted basic elements of the Soviet fiscal system, under which enterprises contributed to the state treasury from their residual income and retained only a share of earnings for authorized self-financed investments and other purposes. The Ministry of Finance thus won the authority to set each enterprise's investment policy and regulate its current activity through the state bank.

The First Five-Year Plan (1951-55) emphasized mining and electric-power production as well as transportation improvements. The plan called for an increase in industrial production at an average annual rate of 27.7 percent, including an increase of 26.5 percent in consumer-goods output and a 31-percent rise in production of goods consumed by producers. Shortfalls in agricultural production during the first year doomed the entire plan. The farm sector failed to meet output targets for raw materials, leaving the industrial sector unable to meet targets for consumer goods. Industrial productivity also lagged because recently urbanized peasants had not had enough time to learn to operate factory equipment. The regime then realigned planning priorities in favor of agriculture and consumer-goods production. Over the plan period, annual industrial output reportedly increased at an average of 22.8 percent; consumer-goods output rose 24.3 percent; and producer-goods

output rose 20.7 percent. The Albanian economy's backwardness dashed the leadership's hopes of rapidly developing heavy industries, specifically the mineral-processing and capital-goods manufacturing branches, at the expense of the agricultural sector. Although their efforts brought partial success—the ratio between the values of agricultural and industrial production shifted from 82:18 in 1938 to 40:60 in 1953—70 percent of Albania's work force continued to till the soil.

Having relatively easy access to capital because of generous Soviet aid, the regime redoubled its industrialization drive and tightened control of the agriculture sector. Albania conducted all its foreign commerce with the other communist nations between 1949 and 1951 and over half its trade with the Soviet Union itself. The Soviet Union and its satellites wrote long-term "loans" to cover shortfalls in Albania's balance of payments. Soviet and other East European aid at first dovetailed with the Albanian leadership's ambition to industrialize the country. Tiranë's Second Five-Year Plan (1956–60) called for an annual increase of 14 percent in industrial production. Good results in 1956 and 1957 prompted the authorities to revise plan targets upward. Although the new goals went unattained, industrial production rose an average of about 17 percent annually over the five-year period. In 1955 private farms still produced about 87 percent of Albania's agricultural output, and the government reemphasized its farm collectivization drive. By 1960, however, the proportion of output from collective and state farms was unchanged. The farm sector continued to suffer from low productivity and poor worker motivation. Soviet aid was required, and wheat imports were depended on to meet as much as 48 percent of Albanian need.

Considering Enver Hoxha's obsession with heavy industry misguided, the new Soviet leadership balked at the idea of investing in large-scale industrial projects in Albania after Stalin's death in 1953. The Soviet Union and other communist countries had provided considerable investment and equipment to Tiranë from 1948. Especially after 1955, however, this aid was designed primarily to integrate Albania's economy into a "division of labor" established by the Soviet-led Council for Mutual Economic Assistance (Comecon—see Glossary). Albania's allotted role demanded that it foster agricultural growth and increase the extraction of raw materials and the production of consumer goods. The leadership in Tiranë considered Moscow's advice to concentrate on production of cash crops and raw materials a disparaging attempt to relegate Albania to the status of a Soviet colony in perpetuity. When Tiranë began to tilt toward China, Moscow and its satellites offered

incentives to persuade Hoxha to remain in the Comecon fold. The disagreement over Albania's development policy soon became entangled in the animosities between the Soviet Union and China. In 1959 the two communist giants competing for Albania's hand poured capital into the tiny Balkan country so rapidly that it could not be absorbed. China extended Albania a US\$13.8 million loan, Moscow followed with new credits totaling US\$83.8 million, and other East European countries contributed another US\$35 million.

Dependence on China, 1961-78

The Albanian leadership's fixation on heavy industry contributed significantly to its decision to break with the Soviet Union. Enver Hoxha gambled that China not only would be less likely than the Soviet Union to threaten his ascendancy but also would be more likely to provide investment money and equipment for his pet industrial projects. Albania's Third Five-Year Plan (1961-65) amounted to outright defiance of Soviet advice to concentrate mainly on agriculture. The plan allocated industry 54 percent of all investment and called for a 52-percent rise in overall industrial production, including increases of 54 percent and 50 percent in the output of producer and consumer goods, respectively. Moscow responded by canceling credits. The Albanian leaders foresaw that a cut in Soviet investment and aid would disrupt their economy but calculated that maintaining power and continuing industrialization would outweigh the failure of one five-year plan. The Soviet aid stoppage brought Albania's foreign trade to a near halt and delayed completion of major construction projects. Spare-parts shortages led to a 12.5-percent decline in labor productivity between 1960 and 1963. China compensated Albania for the loss of Soviet credits and supplied about 90 percent of the spare parts, foodstuffs, and other goods Moscow had promised. The Chinese, however, proved unable to deliver promised machinery and equipment on time.

In 1962 the Albanian government introduced an austerity program to keep the country's sputtering economy from stalling entirely. Official public appeals to cut costs and conserve resources and equipment netted a claimed 6 percent savings. The government also initiated a campaign of "popular consultation," asking individuals to submit suggestions for improving self-sufficiency. Years of state terror and still-rigid central control, however, had undermined the Albanians' willingness to assume personal responsibility. Party hard-liners, fearing they would lose their positions to a younger generation of more technically sophisticated managers, sabotaged cost-cutting measures.

The government launched a program to increase the amount and quality of arable land by terracing hillsides and draining swamps. A new phase of collectivization was initiated. However, agricultural output grew only 22 percent over the entire five years instead of the planned 72 percent. Overall industrial production grew a mere 14 percent in 1964 and 1965.

Fearful of a potential domestic power struggle and disappointed that heavy industry's output had failed to increase significantly overall between 1950 and 1965, the Albanian regime adjusted its Stalinist economic system in the mid-1960s. The government altered the planning mechanism in February 1966 by allowing for a small degree of worker participation in decision making and reducing by 80 percent the number of indicators in the national economic plan. The leadership also decentralized decision-making power from the Council of Ministers to the ministries and local people's councils and included a slight devolution of control over enterprise investment funds. The system was specifically designed, however, to ensure that resources were allocated in accordance with a central plan. At no time, at least in public, did Albania's rulers entertain the notion—heretical to all orthodox Stalinists—that economic decision making should be devolved to the enterprises.

In March 1966, an "open letter" from the Albanian Party of Labor to the Albanian people heralded radical changes in the egalitarian job allocation and wage regime. The authorities cut 15,000 jobs from the state bureaucracy, replaced executives, and shunted managers and party officials into the countryside. The government then eliminated income taxes and reduced the salaries of highly paid workers. Wages varied by industry, but the ratio between the lowest and highest salaries was only about 1:2.5. Reviving a scheme originally launched in 1958, the government began assigning all employees to perform "productive" physical labor. People engaged in "mental work"—for example, intellectuals, teachers, and party and state bureaucrats—were required to toil in the fields for one month each year. Even high-school students took part in "voluntary" construction and agricultural work. Only the party elite remained unaffected by the egalitarian reforms.

In emulation of China's Cultural Revolution, which was designed to rekindle the revolutionary fervor of the masses, Hoxha prescribed a regular rotation of managers to prevent "bureaucratic stagnation," "bureaucratism," "intellectualism," "technocratism," and a whole neologistic lexicon of other "negative tendencies." The campaign, called the Cultural and Ideological Revolution, also prescribed the replacement of men with women in the party and state administrations.

The government's economic adjustments militated against efficiency. Workers, who were given a voice in planning, lobbied for the easiest possible production targets and worked to overfulfill them in order to earn bonuses. But because one year's output figures became the basis for the next year's targets, they tried to limit overfulfillment to prevent the imposition of difficult targets in the next planning period. The government's campaign to send office workers out to the fields, mines, and factories encountered resistance. The policies of guaranteed full employment and extensive growth—expanding productive capacity rather than squeezing more from existing capacity—made huge numbers of workers redundant. The low quality and quantity of consumer goods and virtually flat income-distribution curve dampened incentive. Workers dealt in pilfered state property and rested at their official jobs in order to moonlight illegally. Although the government had herded all artisans into cooperatives by 1959, many craftsmen, including tailors, carpenters, and clothing dealers, earned undeclared income through private work. Black-market construction gangs even performed work at factory sites and collective farms for directors desperate to meet plan targets.

In the late 1960s, thanks mainly to massive capital inflows from China, the Albanian economy expanded. The Fourth Five-Year Plan (1966–70) called for an increase of about 50 percent in overall industrial production, with producer-goods production increasing by 10.8 percent annually and consumer-goods output rising 6.2 percent. Most sectors exceeded plan targets. Heavy industry's share of overall industrial production rose from 26 percent in 1965 to 38.5 percent in 1970, the largest increase registered in any five-year period in Albania's history (see table 4, Appendix). In 1967 the government launched a "scientific and technical revolution" aimed at improving self-sufficiency. For the first time, the Albanian Party of Labor made a serious attempt to take into account Albania's natural resources and other competitive advantages while planning industrial development. Government officials examined blueprints for coal-fired and hydroelectric power plants as well as plans for expanding the chemical and engineering industries. Despite chronic worker absenteeism, the engineering sector performed remarkably well, tripling output between 1965 and 1973. The late 1960s also saw changes in the agricultural sector. The authorities announced a farm collectivization drive in 1967 and, in an attempt to take advantage of economies of scale, amalgamated smaller collectives into larger state farms in 1967 and 1968. By 1970, Albania's power grid linked all the country's rural areas.

In the early 1970s, Albania's economy entered a tailspin when China reduced aid (see *Shifting Alliances*, ch. 4). During the period of close ties, the Chinese had given Albania about US\$900 million in aid and had provided extensive credits for industrial development. In the mid-1970s, China accounted for about half of Albania's yearly US\$200 million in trade turnover. The economic downturn after the aid reduction clearly showed that Albania's Stalinist developmental strategy failed to provide growth when levels of foreign aid were reduced. In the Fifth Five-Year Plan (1971-75), the government called for an increase of about 60 percent in the value of overall industrial production; producer-goods production was to increase by about 80 percent and consumer-goods output by about 40 percent. General results from the first two years of the plan were relatively satisfactory. But after China reduced aid to Albania substantially in 1972, many key sectors fell disastrously short of plan targets. Tiranë responded by launching an export drive to the capitalist West a year later. In 1974 the government criticized consumer-goods producers for failing to meet assortment and quality objectives. During the five-year period, overall industrial production rose just over 50 percent; producer-goods output, 57 percent; and consumer-goods output, 45 percent. Despite the obvious link with the curtailment of Chinese aid, the Albanian government offered no official explanation for the economic downturn. Widespread purges were reported in 1974, 1975, and 1976.

Isolation and Autarky

Besides triggering short-term disruptions in the Fifth Five-Year Plan, China's reduction of aid to Albania had a dramatic impact on the Balkan nation's broader economic policy after 1972. In official parlance, Albania's rulers implemented a strategy of "socialist construction based on the principle of self-reliance," that is, a policy of strict autarky. In 1976 the People's Assembly constitutionally barred the government from accepting any loan or credit from a capitalist source and from granting concessions to or setting up joint ventures with companies from the capitalist world. The Albanians publicly criticized Beijing beginning in the fall of 1976, and China ended economic aid to Albania altogether in July 1978. The break eliminated the source of half of Albania's imports. The country had no choice but to stimulate exports to make up the shortfall in the hard currency needed to purchase essential supplies. Just before the announced break, government planners prescribed a rapid increase in the production and export of Albania's four main sources of hard-currency income: oil, chromite, copper, and electric power. Between 1976 and 1980, exports jumped 33 percent

over the preceding five-year period. In an act indicative of its xenophobia and economic priorities, the regime invested an estimated 2 percent of net material product in the construction and installation of thousands of prefabricated cement bunkers throughout the country from 1977 to 1981.

Tiranë took energetic, if extreme, steps to end Albanian dependence on food imports, even going to the point of requiring each of the country's districts to become self-sufficient in food production. In order to keep people on the farms, the authorities also made rural wages relatively more attractive and tightened travel restrictions on the rural population. The government reduced the size of the personal plots of collective-farm members. Police also increased harassment of peasants who attempted to sell produce in the cities. In late 1981, the government collectivized private livestock in the lowlands as well as all goats and sheep in the highlands. Disaster ensued when peasants undertook a wholesale slaughter of their herds; shortages of meat and dairy products soon plagued the cities. Overpopulation in farm communities further complicated efforts to achieve self-sufficiency.

Autarky proved an unsuccessful policy. The productivity growth rate fell slowly but steadily during the Seventh Five-Year Plan (1981–85), and the annual increase in net material product for the period 1981–88 averaged only 1.7 percent, a figure that did not even keep pace with the country's annual population increase of more than 2 percent. Albania's economy suffered two of its worst years in 1984 and 1985. In 1984, 1985, 1987, and 1988 the net material product decreased, and from 1986 to 1990 it declined 1.4 percent (see table 5, Appendix). Five years of drought between 1983 and 1988 dealt sharp setbacks to agricultural and hydroelectric power output. Power shortages and other acute problems afflicted two of Albania's main generators of hard-currency income, oil and chrome. As output fell, investment contracted and caused further drops in productivity. Insolvent enterprises turned to the state for bailouts. The shortage of goods circulating in the economy and the government's maintenance of fixed wage levels created repressed inflation and forced saving.

Despite clear portents of an economic catastrophe, the regime took no radical initiatives to pull Albania out of its economic nose-dive until it was too late to avoid a major collapse. Ramiz Alia, who became chairman of the Presidium of the People's Assembly in November 1982, gradually assumed more decision-making power from Hoxha, who went into semiretirement in 1983 and died in April 1985. In 1986 the Albanian Party of Labor still fully supported a centrally planned economy. The party's official daily, *Zëri i*

Popullit, included the following proclamation in January 1986: "The execution of plan tasks . . . by every individual, sector, enterprise, agricultural cooperative, district, and ministry is a great patriotic duty, a party and state duty." A year later, Alia set to work to quash the right of the peasant collective-farm members who still had personal plots to sell their produce, denouncing the practice as a waste of time and a misguided stimulation of a private market. The ambitious Eighth Five-Year Plan (1986-90) called for an increase of about 35 percent in national income, a 30-percent increase in industrial output, a 35-percent improvement in agricultural output, and a 44-percent increase in exports. Targeted for investment were a hydroelectric power plant at Banjë in the south, a rail line connecting Durrës with the main chromite-mining area in central Albania, new superphosphate and ferrochrome plants, and the completion of nickel-cobalt and lubrication-oil plants.

By late 1989, the dismantling of the communist governments of Eastern Europe and the reintroduction of capitalism to the region were under way, and signs of change began to appear in isolated Albania. It was recognized that the attempt to introduce a completely socialized agricultural sector had failed and that livestock collectivization had been a huge blunder. Nevertheless, in September 1989 Alia told the Eighth Plenum of the Central Committee of the APL that the leadership would "never permit the weakening of common socialist property." The party will never, he said, "permit that the way be opened to the return to private property and capitalist exploitation." At the end of his address, however, Alia said that guaranteed employment, a cornerstone of the communist system, should be allowed to go by the wayside. Thus, he signaled that the leadership had indeed realized that radical changes to the country's Stalinist economic system were necessary.

In 1990 Alia attempted to strengthen the communists' weakening hold on power by initiating an economic reform from the top down. For the first time, the leadership proposed broadening private economic activity outside of agriculture and a role for market forces in determining resource allocations for state-owned industrial enterprises. The government relaxed central planning in agriculture, increased the maximum allowable size of personal plots to about 0.2 hectares, and ordered collective farms to return livestock to peasants. The reforms provided for an expansion of enterprise self-financing and allowed local governments to plan part of the industrial activity that took place in their districts.

In January 1990, at the Ninth Plenum of the Central Committee, party leaders disclosed a reform program that constituted an even more radical departure from their purely Stalinist rhetoric

of only a few months earlier. Enterprises were divided into small units and made financially independent, with long-term bank credits replacing state subsidies. The package included decentralization of economic decision making. Workers won the right to choose and dismiss enterprise directors. Wages were to be based on plan fulfillment and enterprise profits. Supply and demand were to determine the prices of luxury goods. Citizens were permitted to undertake private construction for their own use. Agricultural cooperatives were allowed to sell food in towns and set their own prices. At the Tenth Plenum of the Central Committee in April 1990, Alia said that as a consequence of the reforms a significant turnover had occurred among the directors of Albania's enterprises. Resistance to the reforms came from administrative employees unwilling or unable to adapt to new job requirements. Some firms responded to the economic reforms by reducing their output targets in hope of increasing their bonuses; other firms, hoping to avoid penalties for sustaining unplanned losses, actually planned for losses in advance.

The government failed to implement the reforms quickly enough to stem the tide of popular unrest and prevent economic disaster. In the summer of 1990, the existence of unemployment became apparent in Albania. A new drought reduced supplies of electricity from Albania's hydroelectric dams and forced plant shutdowns. Thousands of Albanians demanding visas stormed Tiranë's few Western embassies. The first postwar opposition political movement emerged in December 1990; riots in Tiranë and Shkodër in April 1991 galvanized antigovernment forces; and thousands of Albanians fled to Greece and Italy, but most were later forcibly returned.

By mid-1991, only a quarter of Albania's production capacity was functioning. Industrial output in the third quarter was 60 percent less than in the third quarter of 1990. The foreign debt reached about US\$354 million in mid-1991, up from US\$254 million at the end of 1990 and US\$96 million at the close of 1989. Despite the paralysis in production, the government fed inflation by issuing unbacked money to pay idle workers 80 percent of their normal wages. The opportunity to pilfer became one of the strongest factors motivating people to go to work, and the absence of clearly defined property rights and the breakdown of the rule of law fueled rampant theft of both private and state-owned property. The prolonged shutdown of production lines threatened serious damage to equipment and other capital goods, which suffered at least as much from plunder and cannibalization as from normal depreciation.

In the chaos, consideration of the transition costs inherent in the changeover from a socialist to a capitalist system became irrelevant. The coalition government that took office in June 1991 responded to the situation by announcing that it intended to carry out radical economic reforms including privatization of agricultural land, creation of a legal framework necessary for the functioning of a market economy, commercialization and privatization of economic enterprises, tight monetary and fiscal policies, price and foreign-trade liberalization, limited convertibility of Albania's currency, and the creation of a social safety net. However, the coalition government fell several months later. In April 1992, a victorious Albanian Democratic Party (ADP) took over the government and assumed the burden of implementing badly needed economic reforms.

Economic System

Change from a centrally planned economy to a free-market system necessarily entails hardship, job redistribution, income fluctuations, and a naturally unpopular abandonment of a false sense of security. Albania's Stalinist economic system, however, disintegrated so completely in the early 1990s that the people had little choice but to take cover as the government enacted sweeping free-market reforms. Article 1 of an August 1991 law on economic activity ripped the heart out of the Stalinist economic system, providing for the protection of private property and foreign investments and legalizing private employment of workers, privatization of state property, and the extension and acceptance of credit. Government officials set to work drafting a new civil code, a revised commercial code, new enterprise laws, and new banking, tax, labor, anti-trust, and social security legislation. Widespread anarchy, an almost complete production shutdown, a paucity of capital, and a lack of managers trained to deal with the vagaries of a market economy slowed the reform process.

Governmental Bodies and Control

In its last months in power, Albania's communist regime engaged nine ministries in the battle to free up the country's paralyzed economy. The Council of Ministers and the Ministry of Finance formed the hub of economic decision making, and workers and managers at troubled enterprises regularly turned directly to them for direction. The Ministry of Finance took most responsibility for implementing the government's economic reform programs. It drew up accounting and tax regulations as well as rules on the documentation of business activity and contributions to



*A man harvesting with a scythe in a field in the central coastal region
Albanians loading grass into a wagon near the town
of Lushnjë in the central part of the country
Courtesy Charles Sudetic*

social security funds. Inspectors from the Ministry of Finance, known as the “treasury police” or “financial police,” enforced the country’s economic laws, oversaw customs posts, and worked, albeit with little success, to curb black-market speculators and take action against violators of price ceilings. The other ministries concerned with the economy, such as agriculture, construction, industry, trade, and transportation, implemented plans affecting their respective sectors.

Ownership and Private Property

Albania’s government sought to save itself during the collapse of the country’s economy by abandoning its Stalinist ideology, reviving family farms, and allowing for the creation of small trade and service businesses. It launched reforms in early 1991 that legalized private ownership and gave statutory protection to joint ventures involving Albanian and foreign companies. In its June 1991 economic program, the coalition government called for the rapid privatization of state-owned property, including the relinquishment of agricultural land to private farmers and the transfer of ownership of industrial enterprises through a free distribution of shares in mutual funds or stock in holding companies. Later the government began auctioning off small enterprises, including shops and restaurants, as well as distributing apartments and homes to their current residents without requiring payment. The government also planned to liquidate unsalvageable enterprises.

The new government supported calls for a crash privatization program and the free granting of ownership rights to the “most natural recipients” by arguing that the economy sorely lacked independent decision makers and that no recovery could be expected until private property had been established. The economy’s paralysis and widespread popular unrest underscored the urgency of going forward with some kind of privatization scheme. The law on economic activities provided for the privatization of industrial enterprises and firms dealing with handicrafts, construction, transportation, bank services, foreign and domestic trade, housing, culture and the arts, and legal services. The law, however, called for special legislation to regulate the privatization of Albania’s energy and mineral extraction industries, telecommunications, forest and water resources, roadways and railroads, ports and airports, and air and rail transportation enterprises. The government created a National Privatization Agency to auction off enterprises; Albanians were to receive first option to buy.

Privatization proceeded in fits and starts, but within several months about 30,000 people found themselves employed in the

nonagricultural private sector. The government privatized about 25,000 retail stores and service enterprises and about 50 percent of all small state enterprises in each sector, mostly through direct sales to workers. Also privatized were state firms engaged in handicrafts, a brick factory, bakeries, a fishery and fishing boats, a construction company, and six seagoing cargo vessels. The government also planned a large-scale privatization of workshops, production lines, and factories. The original plan called for the establishment of about five mutual funds and transformation of the surviving larger state enterprises into joint-stock companies. The shares in these companies would be distributed to the mutual funds, whose shares would in turn be distributed free to all adult citizens resident in Albania. Limited domestic capital, however, made privatization of large enterprises difficult.

Enterprises and Firms

Prior to the 1990s, the state owned and ran all enterprises. Reams of instructions sent from central planners constituted upper management. Enterprise directors did not have power over investment, employment, production, or any other decision-making areas but were responsible for maintaining initial capital stock. Competition among enterprises did not exist. In October 1990, however, as the economic system's breakdown became fully apparent, the government enacted a new enterprise law giving workers management, but not ownership, of the enterprises that employed them. In August 1991, the law on economic activity enabled persons seeking to open businesses to register at the court of the district in which they wished to operate. The court would, within a ten-day period, decide whether or not to grant an operating license. If denied a license, a registrant could appeal to a higher court, which had to decide on the matter within another ten days. The law on business activity also required private enterprises to abide by government standards for quality; weights and measures; safety, sanitary, and working conditions; and environmental protection.

With the help of consultants from the European Community (EC—see Glossary), the International Monetary Fund (IMF—see Glossary), and the World Bank (see Glossary), the Council of Ministers also began working on a new law on the activities of state enterprises. In draft, the law provided for the state to supervise the operation of surviving state-owned enterprises but allowed their managers a broad measure of independence. The draft also provided for the creation of a steering council for each enterprise, which would be nominated by the appropriate ministry or a local government. The council would make major management decisions; work

up the enterprise's business plan; manage relations with the government, other enterprises, and employees; and set wages and bonuses. A delegate elected by fellow employees would represent the enterprise's workers on the steering council but would not have a vote. The draft bill also defined how net revenues would be divided among capital reserves, development funds, social assistance, and employee bonuses.

By freeing prices, eliminating barriers to trade, applying banking criteria to credits, and instituting new policies on interest rates, Albania's government gradually bolted together a new framework for assessing the potential viability of the country's enterprises. Western economists proposed a recovery program calling for infusions of aid, management supervision, and closure of loss-generating enterprises. The program included commitments by donor nations of US\$140 million in spare parts and raw materials to jump-start paralyzed industries. Under the program, enterprises whose output was valued at less than the cost of inputs would not be restarted because halting production and paying full wages to idled workers would be less damaging to the overall economy than maintaining operations. The viability of restarted firms would be evaluated six to nine months after the introduction of free-market conditions. These enterprises would face either a rollover of capital credits, a rollover of working capital credits accompanied by an investment credit, or liquidation by the auctioning of assets.

Finance and Banking

Under the communist system, the government made all investment decisions, allocating monies to enterprises directly from state coffers. Enterprises were permitted only to manage their initial capital stock and were not allowed to dispose of or acquire new capital. Each enterprise redeposited a predetermined sum into the state budget to compensate for the cost of its fixed assets. The financing mechanism failed in the early 1990s because production rates plummeted and state enterprises generated far more losses than gains. As a consequence, government revenues and reserves rapidly shrank. By mid-1991 Albania's budget deficit was equal to almost half of the country's gross domestic product (GDP—see Glossary). Unbacked currency was issued to finance a large part of the banking system, and inflation soared. Decades of communist-enforced isolation had left few Albanians with an understanding of the pitfalls of complex financial transactions. In 1989 and 1990, according to the Council of Ministers, State Bank of Albania currency traders speculated recklessly on the world spot-money market. Taking on market commitments of up to US\$2 billion in a single currency,

these traders reportedly marked up losses of as much as US\$170 million, a huge figure considering that the country's annual exports at the time amounted to about US\$100 million.

The efficient replacement of government plan instructions by consumer preferences in determining resource allocation required the development of a true capital market in Albania. The August 1991 law on economic activity allowed private persons, for the first time since World War II, to finance businesses with lek (L; for value of the lek—see Glossary) investments and foreign currency through the State Bank of Albania, other state-owned banks, and domestic or foreign private banks. Albania joined the IMF in 1991 and thereafter worked to secure a standby credit agreement. In the absence of an effective domestic banking system, illegal money changers and black marketeers met the demand for credit and money-changing services on a bustling Tiranë street corner known locally as “the Bank,” where an estimated US\$60,000 to US\$80,000 changed hands each day.

Albania's government, assisted by specialists from the IMF and World Bank, prepared a two-tier banking system to be governed by laws on the central bank and the commercial banking system. Under the draft banking laws, the National Bank of Albania, a reorganized version of the old State Bank of Albania, would issue and manage the national currency and oversee credit policies. The central bank would also manage foreign-exchange reserves, act as a fiscal agent for the government, maintain a securities exchange market, and license other banks to operate in Albania. The bank would be responsible to the People's Assembly and therefore maintain some distance from the government administration. The country's banking system would include the Albanian Commercial Bank, which took over commercial foreign-exchange transactions from the State Bank of Albania; the Savings Bank; and the Bank for Agricultural Development.

With a branch in every district, 130 rural offices, and 500 staff members, the main source of formal agricultural credit in Albania was the Bank for Agricultural Development. The government separated the farm bank from the State Bank of Albania in 1991. New banking laws excluded the Bank for Agricultural Development pending a parliamentary agreement with parliament. At issue was whether the bank would loan money and set interest rates according to bankers' criteria, the primary one being the potential for timely repayment at a profit, or give special treatment to small farmers and act as a government agent channeling funds to state farms and state-owned enterprises. The farm bank's portfolio included close to L4.0 billion (US\$592 million) in bad loans to state farms,

dissolved collectives, and state-owned enterprises. A debt-resolution agency was likely to assume responsibility for collection of these bad loans, 90 percent of whose face value had been underwritten by the state. The bank's only real assets were L320 million in loans to individuals and L254 million in deposits.

Currency and Monetary Policy

For decades Albania's government artificially maintained the exchange rate of the country's currency, the lek, at between L5 and L7 to US\$1 without regard to production, prices, the external market, or other factors. Among the casualties of the economic collapse of the early 1990s was the government's control over public finances and monetary aggregates; another victim was the lek's facade of stability. An enormous budget deficit, brought on in part by huge government subsidies to money-losing enterprises during a period of almost complete breakdown in production, led to triple-digit inflation. The regime took steps to impose monetary discipline by suspending payment of wage increases. To slow inflation, the government promised to cut its budget and eliminate price supports and subsidies to loss-generating state enterprises.

The government's first tentative step toward currency convertibility came when the August 1991 law on economic activity legalized the exchange of foreign currency for leks at rates set by the State Bank of Albania or by the private foreign currency market. A month later, the government devalued the lek by 150 percent and pegged it to the European Currency Unit (see Glossary). The inflationary spiral quickly drove the lek's value downward. Foreign businesses had no choice but to reinvest lek profits, despite the government's announced intention of introducing a fully convertible lek, because the acute shortage of foreign-currency reserves made convertibility impossible.

Government Revenues and Expenditures

Tax collection had been a serious problem in the Albanian-populated lands at least since the Ottoman Empire extended its rule over the region and probably since Roman times. The government eliminated personal income taxes in 1967 and all personal taxes in 1970. For the next twenty years, central and local governments collected revenues primarily through turnover taxes and revenue deductions from state and collective enterprises. In 1984 these collections accounted for a record 96 percent of government revenue. Chaos overtook Albania's fiscal and taxation systems in 1990, revenues dried up, and the government had to issue unbacked currency to continue operations. In 1991 the government announced

that the country's fiscal system had to be strengthened because "no market economy exists without taxes." The People's Assembly set to work on a battery of revenue measures, including a tax on profits, a sales tax, a business registration tax, a motor vehicle tax, and excise taxes on cigarettes, alcoholic beverages, and oil products. Predictably, talk of taxes fueled resentment among neophyte entrepreneurs.

The law on taxation of profits, which the government hoped to implement in early 1992, appeared to offer significant incentives to private enterprise and foreign investment. It required payment of a 30 percent tax on yearly profits but exempted private persons from payment for three years from the time they began business activities. Joint ventures and foreign-owned firms were required to pay a 30 percent profit tax. Upon completing ten years of business activity in Albania, a joint venture or foreign firm would receive tax reductions. Foreign enterprises and persons who reinvested profits in Albania received a 40 percent tax reduction on the amount reinvested. The proposed measure, however, would require all joint ventures and foreign-owned enterprises engaged in mining and energy production to pay a 50 percent profits tax. Foreign persons were required to pay a 10 percent tax on all repatriated profits.

With only limited capacity to generate tax revenues, the government emphasized reducing the overall budget deficit and public debt. Proceeds from the legitimate sale of international aid items were used to maintain essential government functions and the social safety net. Local government reform depended on the development of a new system of financing based on users' fees, local taxes, and central-government grants. Albania's local governments were in dire need of technical assistance to establish a local finance system and train government staff in planning and financial management.

Savings

Albania's communists claimed they had engineered the world's thriftiest society. One in three Albanians maintained a savings account. The volume of deposits in Albania's savings bank rose by 200 times between 1950 and the late 1980s, albeit from a minuscule base. Between 1980 and 1983, the savings rate grew 28 percent. The continual increases in personal savings indicated that the economy was not producing adequate quantities of consumer goods. The government-run banks offered a 2 percent interest rate on short-term deposits and 3 percent on long-term deposits. After the economic crash of the early 1990s, saving, at least in cash, was not an option for most of the population. The wage of an average

Albanian worker dropped to about US\$10 per month; a day's pay bought a half kilogram of cheese.

Work Force and Standard of Living

Until the 1990s, Albania's working people played practically no meaningful decision-making role in the country's economic life. Most workers simply followed orders and scrambled to find necessities in the country's poorly stocked stores. Personal initiative too often either went unrewarded or was considered ideologically unsound and therefore hazardous to personal safety. The regime denied the existence of unemployment in Albania but kept thousands of redundant workers and managers on factory and government payrolls and dispatched young people entering the work force to labor manually on collective farms or elsewhere in the economy.

The collapsing economic system left most Albanians effectively jobless. Despair, fear of political repression, and television-fed expectations of an easy life in the West triggered waves of emigration to Europe's established free-market democracies, in particular Greece and Italy. The craving to leave Albania in search of work was so strong that in August 1991, long after the arrival of international food aid, tens of thousands of people converged on Durrës after rumors spread through the nearby countryside that a ship would take passengers from that port to Italy.

Prices and Wages

For many years, all prices and wages were fixed by the government, using annual economic plans. The leadership followed the Stalinist model of conveying general productivity gains to households by reducing retail prices rather than by raising wages, which would have allowed consumers a modicum of leverage in the marketplace and, if goods were unavailable or failed to attract purchasers, would have produced inflationary pressure, forced savings, and a black market. Between 1950 and 1969, the Albanian authorities lowered prices thirteen times. The 1970s witnessed no price cuts, but the government reduced some prices again in 1982 and 1983. Enterprises that sustained losses because of the governments' system of setting wages and prices were compensated with subsidies from the state budget.

The economic anarchy that followed the collapse of the centrally planned system ended the years of artificial price stability. The August 1991 law on economic activity removed price controls on the prices of all goods except bread, meat, dairy products, other essential food items, other goods in short supply, and products produced by monopoly enterprises. Also, the law required an annual

review of price ceilings. Price controls became less effective as private food markets developed. The price freeze even failed to halt price increases for rationed food items because they disappeared from the shelves of state stores, where price restrictions were enforced, and found their way onto the black market, where speculators kept prices high. The Council of Ministers endorsed a draft law on prices, drawn up by the Ministry of Finance, which would free retail, wholesale, and producer prices for all but a few agricultural commodities and monopoly controlled products. The authorities introduced trade liberalization to stimulate supply increases and competition, which they hoped would maintain downward pressure on prices. The government also planned gradual elimination of subsidies for money-losing firms in an attempt to stop hyperinflation.

Under the communist system, Albania's government had maintained one of the world's most egalitarian wage structures. The central authorities fixed the number of workers at an enterprise, assigned them to particular jobs, and set the wage fund, which for the nation as a whole translated in 1983 to a monthly pay of about L400 for a worker and about L900 for a manager. By 1988 average worker earnings grew to between L600 and L700 (US\$89–US\$104); and pay for top officials reached L1,500 (US\$223). In the early 1990s, the regime modified the wage system, creating incentives for overfulfillment of plan targets, and allowing for a 10 percent pay cut for management if enterprises failed to attain plan targets.

Economic liberalization spawned a private sector without wage controls. Market-driven price hikes forced the government to raise wages for state workers twice in mid-1991. During the economic chaos, negotiators for Albania's newly independent trade unions demanded that the government automatically increase wages to keep pace with price hikes. At state factories and farms idled by disruptions in deliveries of raw materials, workers' salaries were reduced only 20 percent, a move strongly criticized by the country's main opposition party as inherently inflationary. The opposition called for fixed wages for workers at state enterprises and an absolute limit on subsidies to money-losing enterprises, as two means of slowing the bidding-up of wages and inflation. In the chaos, the average monthly income for Albanian workers plummeted to the equivalent of about US\$10.

Enver Hoxha and his followers enforced frugality on Albanians for decades. The regime made few significant attempts to turn the product mix of the country's industrial sector away from heavy industrial goods and toward consumer goods, especially durable

consumer goods. Instead of absorbing personal savings by producing and selling more consumer items, the government lowered the incomes of the few highly paid and skilled workers. People who complained often lost their jobs and were sent to state farms. The policy eased inflationary pressures but had dire consequences for worker motivation and willingness to accept responsibility. The Albanian economy's reliance on domestic monopolies made it especially susceptible to shortages. The country's only glass factory, for example, shut down in mid-1990. Lacking hard currency to purchase imported glass, Albanians had to live without bottles and replacement windows. When Italy delivered plate glass as part of relief supplies, it was discovered that the Albanians had no glazing putty.

Domestic consumption at first slowed with the collapse of the Stalinist economic system. In 1991 state shops were practically empty of goods, if they were open at all. Milk, butter, eggs, and medicines were in short supply. People had to squeeze through metal-barred windows at bakeries just to buy loaves of bread. Private stores and black marketeers had a relatively wide variety of goods, including pasta, peeled tomatoes, soap, fruit juices, and toilet paper, but with one kilogram of spaghetti costing a tenth of the average monthly salary, these goods were far beyond the purchasing power of the vast majority of the population. The government introduced general rationing, but by mid-1991 widespread fear that supplies of basic food items would run out caused crowds to begin plundering warehouses and retail outlets. Hopes for increased supplies and broader choices in the marketplace grew with the emergence of the private sector, which almost immediately began bringing in products that previously were unavailable, and often banned.

Domestic Consumption

Even the communist government's sparse official statistics could not hide the fact that the Albanians suffered a low living standard. From the mid-1970s, the economy struggled to produce enough food and consumer goods to supply the quickly growing population. In the early 1990s, serious difficulty in simply feeding the country forced the government to scrap its Stalinist economic policies and to appeal for foreign humanitarian relief to avert widespread hunger. Saving became an impossibility for almost the entire population.

Standard of Living

In the late 1980s, the average pay for an Albanian worker was about US\$89 to US\$104 monthly at the official exchange rate of

US\$1 to L6.75. The government supplemented low incomes by annually allocating about 25 percent of the annual budget, about L4,000 (US\$595) for each family, to the population's cultural and social needs, including everything from price subsidies for necessities like children's clothing to library construction. The state provided free education and health care and absorbed 65 percent of tuition for day care and kindergarten and 18 to 35 percent of the cost of meals in workers' cafeterias.

Under the communist regime, the cost of living for the average Albanian was generally low. Food was generally inexpensive but in chronically short supply. The Albanians' staple diet consisted of bread, sugar, pasta, and rice, which were sold at or near cost. Production shortfalls limited supplies of meat, dairy products, and other protein-rich foods. Albanians enjoyed increasing supplies of clothing in the late 1980s, but price, quality, and style left much to be desired. The state subsidized the prices of children's clothing and shoes, but a man's shirt could cost about L200 (US\$30), a suit L675 (US\$100), and a woman's sweater L150 (US\$22). A farmer had to work about two weeks to buy a pair of the most inexpensive shoes. Durable goods carried exorbitant price tags. A bicycle sold for about L900 (US\$134); a motorbike, L2,700 (US\$402); a radio, L1,000 (US\$149); a television, L4,000 (US\$595). The ever-vigilant state required that purchasers of televisions and refrigerators obtain permits. Housing rents were low, usually amounting to between 1 percent and 3 percent of an average family's income. In 1980, for example, the monthly rent for an apartment in Lezhë came to L40 (US\$7.50). Public transportation also cost little.

Officials estimated that the standard of living for town dwellers with average monthly incomes dropped by about half in 1991. Government statistics showed that a typical family with an average monthly income of L1,300 in December 1990 would need more than L4,500 to keep up with inflation over the same period. In 1991 a kilogram of spinach sold for L60 at Tiranë's produce market; oranges cost L200 per half kilogram; and a bottle of orange drink, L600. Per capita annual meat consumption in cities totaled about 11.7 kilograms in 1990, down from about 14.6 kilograms in 1975; rural meat consumption in 1990 was about 9.0 kilograms per capita, actually an improvement from 7.3 kilograms per capita in 1975. Furniture prices give some indication of how personal incomes failed to maintain pace with prices in 1991. In one Tiranë store, a table cost L60,000; a bed, L130,000; a door, L150,000.