
NOTES

The Albanian Economy 1912-1944: A Survey

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Bibliographic Sources

Information in major Western languages on economic conditions in inter-war Albania consists in the main of general surveys. Exceptions are special studies by Italian economists written during 1939-1943, when Italy had a direct stake in Albania. Moreover, Italian statistical yearbooks (*Annuario Statistico Italiano*) of this period include a special section on Albania.

In the category of general surveys are the following titles: B. Bhardhoshi and Th. Kareco, *Le développement économique et social de la R.P. d'Albanie, 1944-1974*, Tirana: Ed. "8 Nëntori" for Université de Tirana, Faculté d'Économie, 1974, 172 p. (Includes an introductory survey of the interwar period.); M. Blake, *Economic Conditions in Albania*, Trade Information Bulletin, No. 83, Supplement to Commerce Reports, Washington: U.S. Department of Commerce, 1923, 10 p. (Particularly valuable for information on external loans, 1913-1922.); Comité National Polonais de la Chambre de Commerce Internationale, *Economic Situation of Albania*, Report presented to the International Chamber of Commerce, Economic Group for Albania, 4th Congress, Stockholm, 27th June - 2nd July, 1927; "Die Wirtschaftsstruktur Albanien," *Monatsberichte des Wiener Instituts für Wirtschaftsforschung*, 17/1-3 (1943/44), pp. 21-26.

A special issue on Albania of *Giornale degli economisti e Annali di economia*, 2 (1940), contains the following contributions: M. Boldrini, "Sull'antropologia e la demografia degli albanesi," pp. 403-36. (Includes population estimates, but age structure estimates are tenuous, since they are based on proportions derived from data on Dalmatia.); G. Borgatta, "Moneta e credito in Albania," pp. 561-616; G. Demaria, "Il problema della politica economica albanese." (Includes national income estimates.); F. Di Fenizio, "Evoluzione passata e prospettive di sviluppo per l'industria mineraria albanese." (Information on concession for exploration and exploitation of mineral resources, 1922-1938.); A. Gulinelli, "L'Albania ed il suo riordinamento monetario," pp. 505-26; L. Lenti, "Gli scambi internazionali dell'Albania," pp. 540-59. (Trade balance,

1920-1938; trade by commodities and by principal trading partners, 1929 and 1938.); G. Lorenzoni, "L'Albania agricola, pastorale, forestale," pp. 437-97. (Includes results of a statistical study of 53 latifundia in 1929-1930, first published in Lorenzoni's *Questione agraria albanese*); G. Nardi, "Le finanze pubbliche dell'Albania," pp. 617-44. Another Italian work is M. Michelangeli, *Il problema forestale albanese*, Roma: Reale Accademia d'Italia, 1940. (Treats in considerable detail various afforestation schemes.)

Among Albanian specialized works of the post-World War II period we note: S. Ballvora, "Gjllabërimi ekonomik dhe dëmët e shkaktura nga Italia fashiste dhe Gjermania naziste gjatë viteve të pushtimit 1939-1944," *Studime Historike*, 2 (1966); I. Fishta, *Sistemi monetar dhe i kreditit në Shqipëri, 1925-1944*, Tirana: Universiteti i Tiranës, Fakulteti i Ekonomisë, 1971, 347 p.; I. Fishta, "L'intervention du capital étranger dans l'agriculture albanaise dans la période 1925-1944," *Ekonomia popullore*, 12/2 (1965). (This and other French titles are those of the summaries.); I. Fishta and D. Muharrem, "L'intervention du capital étranger dans l'industrie électrique dans la période 1925-1944," *Ekonomia popullore*, 11/2 (1964), pp. 86-125; A. Haxhi, "La politique financière antipopulaire du régime de Zogu," *Studime historike*, 20/1 (1966), pp. 71-95. (Discusses governmental revenues and expenditures.); S. Mufit, "Le commerce extérieur de l'Albanie dans les années 1921-1938 et son caractère antinational," *Ekonomia popullore*, 11/3 (1964).

Institutional developments

Albania gained her independence from the Ottoman Empire in 1912. During World War I the northern portion of the country was occupied by Austria, while the southern part was held by Italian and French forces. Following the departure of foreign troops, in 1920, a national government was established. In 1923, the League of Nations Council appointed a financial adviser to the Albanian government, but in the following year the government terminated his contract, thus ceasing cooperation with the League.¹ In 1925, former prime minister Achmed Zogu assumed power as President with the backing of conservative landlords and with help from Yugoslavia. He aligned Albania with Italy by treaties of 1926 and 1927: the political and military alliance was accompanied by concessions to Italian companies for exploitation of minerals and other resources. In 1928 Achmed Zogu proclaimed himself King of the Albanians and ruled as Zog I until 1939, when Albania was invaded by Italian forces and attached to the Italian Kingdom through a custom union as well as through a personal union (Emanuel III added to his other titles that of the King

¹ The Adviser's reports are summarized in League of Nations, Financial and Transit Department, *The League of Nations Reconstruction Schemes in the Inter-War Period*, Geneva, 1944, pp. 110-27, (mimeographed).

of Albania). Italy viewed Albania as a source of raw materials and as a market for Italian manufactures. In 1941, the Kosovo area of occupied Yugoslavia was attached to Albania. The relationship with Italy was severed following the Italian capitulation in 1943. German troops kept the country occupied until November of 1944, when the National Liberation Front government of Enver Hodja assumed control over the entire territory of the pre-World War II Albania. War losses of human lives have been estimated at 28,000, and the material damage at \$ 1,920 per capita.²

The monetary system

Until 1926 Albania had no currency of her own. Gold and silver coins of other countries were used as medium of exchange, while the franc of the Latin Monetary Union served as the official unit of account. The dependency on specie preserved a certain measure of stability during the turbulent period of 1912-1925. Also, at least a part of the balance of trade deficit of the immediate post-World War I period could be covered by exports of gold and silver coins. The system had its disadvantages as well: the fluctuations in the value of silver coins relative to gold introduced a measure of uncertainty; moreover, the fact that an important part of real assets was immobilized in the form of money³ kept productivity below its potential level. Banks were practically unknown as only a few foreign banks operated in border towns.

The beginning of a modern monetary system goes back to the 1925 laws on the National Bank of Albania and on a national system of metallic and paper money. The National Bank was constituted in Rome in 1925. Of the total capital of 12.5 m. francs, 51 percent was subscribed by an Italian group. Swiss, Belgian, and Yugoslav financial groups also participated. The National Bank, whose independence from the State was guaranteed, assumed the role of the bank of issue, and it opened branch offices in major Albanian centers, providing all forms of banking service.

The new currency unit became the Albanian franc, whose parity to gold was set at 0.290322 grams. The subunit *lek* equaled 0.2 francs. To assure free convertibility into gold, the National Bank was required to maintain a gold and silver reserve of at least one third of the note issue; until 1939 the actual reserves exceeded the required minimum. The National currency was introduced gradually, with total emission reaching 7.3 mil. francs by 1927. Prices did not rise, since the new money exchanged for cash holdings of foreign currencies, which were deposited in turn in interest-earning accounts abroad. Following the

² B. BARDHOSHI and TH. KARECO, *Le développement économique...*, p. 28.

³ In 1921 the value of gold and silver currency in Albania was estimated at 100 mil. gold francs, but M. BLAKE (*Economic Conditions ...*, p. 7) felt that half of this amount would be more in accordance with the facts. A part of the total stock may have served as jewelry or hoards outside of circulation.

Italian occupation in 1939, the amount of currency in circulation increased by 160 percent, largely due to the expansion of credit to the public sector.⁴ Since by 1940 only about one half of that increase had been translated into price increases, one can infer an increase in real output, assuming no major decrease in velocity. By 1941 prices were rising at an annual rate of 82 percent, 65 percent in 1942, 90 percent in 1943, and finally 176 percent in 1944.⁵

Public finance

During the interwar period the fiscal system preserved the feudal features inherited from the Turks.⁶ A 10 percent tax continued to be levied on the gross value of the agricultural product. In the case of tenant farmers, this represented between 20 and 40 percent of the revenue net of material costs and rent payments. As regards of the property tax on livestock, large herd owners enjoyed the benefit of a lower rate.

TABLE 1
ALBANIA, MONEY SUPPLY AND PRICES

	Currency in circulation	Private demand deposits	Demand deposits of public institutions (In thousands of francs)	Savings deposits	Wholesale price index (1927 = 100; midyear values)
1934					51.07
1935	12,243	722	2,415	932	56.19
1936	10,653	698	10,097	1,020	62.67
1937	11,131	737	5,275	1,191	64.94
1938	10,529	852	3,705	1,428	63.55
1939	26,316	1 062	26,230	1,623	68.96
1940					113.92

Sources: *Annuario Statistico Italiano*, 1941, p. 359; Price index for 1940 is based on S. BALLVORA "Gllabërimi...", p. 38.

The tax reform of 1926-1928 served to increase indirect taxes, so that their share in the total revenue increased from 28 percent in 1923 to 58 percent in 1929-1930. Customs revenues took up 56 percent of all indirect taxes, sales taxes, 20 percent, and revenues from State monopolies (gasoline, salt, cigarette paper), 24 percent.

⁴ See Table 1.

⁵ S. BALLVORA, "Gllabërimi ekonomik...", p. 38.

⁶ A. HAXHI, "La politique financière...", pp. 71-95.

Social conditions

The heritage of the Ottoman feudal system remained in evidence during the interwar period. Given the predominantly agrarian structure of the economy, the distribution of land ownership is indicative of the social structure of the population. The size of land holdings remained highly unequal even after the rather meek agrarian reform of 1930: in 1944, 3.7 percent of farm area was taken up by holdings averaging 2,000 ha., 23 percent by holdings averaging 20 ha., 60 percent by holdings averaging 1.8 ha., while the remaining 13 percent was state owned. Since holdings of 129,000 farmers averaged 1.8 ha. and since there were another 21,000 landless peasants, the leasing of land from owners of large estates was widespread.⁷ Such *latifundia* were concentrated in central Albania. Family farms, common in the south, were often owned by men who bought land with savings accumulated while working abroad, principally in the United States. In the north, the extended family of the *zadruga* type was prevalent.

Population

Given the absence of official censuses, information on long-term growth of the Albanian population must be based on available estimates, which show an increase from 740,000 to 1,057,000 between 1876 and 1938. This corresponds to a compounded average annual growth rate of 5.6 per thousand. The deviations from the average may have been substantial. Between 1902 and 1923 population growth was negatively affected by wars and not least by emigration; during the interwar period, when these effects were no longer dominant, population growth surged, considering that in 1937-1938 the natural annual rate of increase was 20.5 per thousand (birth rate of 34 less death rate of 13.5).

The low educational level of the population went hand in hand with a relatively primitive economy. In 1944, 80 percent of the population is estimated to have been illiterate and the ratio of pupils to total population was 58 per thousand.⁸

Agrarian industries

As late as 1938, 87 percent of the Albanian population was attached to the agrarian sector, according to Bhardhoshi.⁹ The same author gives 92.4 percent as the share of national income originating in agrarian activities, which agrees with the national income estimates for 1927-1928 by M. Frasherri.¹⁰ However, De-

⁷ B. BARDHOSHI and TH. KARECO, *op. cit.*, p. 19.

⁸ *Ibid.*, p. 25.

⁹ *Ibid.*, p. 12.

¹⁰ Frasherri's total of 102 m. francs disaggregates into 60 m. originating in agriculture proper, 30 m. in stockraising, and 5 m. in forestry: the 1.75 m. originating in fisheries

maria considered Frasheri's estimate too low, mainly because it omitted various secondary and tertiary activities, such as construction. In Demaria's own national income estimate for 1938 of 175 m. francs, the agrarian sector represented only 65 percent.¹¹ However, compared with 1927-1928 period, this percentage may contain a downward bias due to the *scissors effect*, since during the Great Depression the drop in agricultural prices exceeded the average decline of other prices.¹²

Although the agricultural area of 1.6 m. hectares accounted, in 1938, for 42 percent of the land area, the arable land represented only 11 percent of the land area, while 30 percent was taken up by pasture; the balance was made up of meadows (0.8 percent) and vineyards (0.1 percent). Forests, which accounted for 36 percent of the total land area, were used mainly for firewood and grazing and were subject to deterioration caused by a population of nearly one million goats. The high ratio of sheep to cattle (1.6 m./0.4 m.) reveals that stockraising based on extensive land use was dominant. Transhumance was common. Herds of up to 3,000 head were owned either individually or made up of smaller herds whose owners were members of cooperatives. It should be noted that it was precisely the transhumance sector which accounted for a large part of animal husbandry exports (wool, cheese, skins, livestock).

In the cultivation of grain, the acreage planted with maize (104,000 ha) was 2.5 times greater than that planted with wheat. In 1937-1941, the average annual yields, expressed in quintals per ha. were 12.5 for maize and 9.6 for wheat. The use of primitive, relatively land-extensive agricultural technology is reflected in the 2 to 1 ratio of the area planted with grain to the area left fallow (three-field economy). Among special cultures, olive trees and tobacco were the most important.

In order to provide agriculture with long-term loans, the *Agrarian Bank* was founded with Italian assistance in 1937. Moreover, a special Italian government loan funded the establishment of 24 agricultural schools and two model farms, the latter operated by Italian companies.

Nonagrarian industries

During the interwar period output was concentrated in extractive industries, notably in the oil industry. Already during World War I, the Austrians, French, and Italians conducted geological explorations, in the territories which each

represented only in part Albanian *national income* since commercial fishing in all Albanian waters was a monopoly of Italian companies. Frasheri attributed another 3 m. to coal mines and 2 m. to salt extraction from the sea. As quoted in G. DEMARIA, "Il problema..." p. 399.

¹¹ *Ibid.*, p. 400-402.

¹² S. BALLVORA, *op. cit.*, p. 38.

occupied. In 1923, a *State Direction* was instituted and a *Mineral Law* passed which provided for granting exploration licenses and awarding concessions. The discovery of oil in the Vlonë (Valona) Basin caused a rush of foreign companies into the area, but since initial expectations failed to materialize the concessions obtained during 1925-1926 were eventually abandoned. Only Italy continued with drillings and began regular production in the oil field of Devoli in 1935. The oil was carried by a 73 km pipeline to the port of Vlonë. Production rose from 48,000 tons in 1936 to 130,000 tons in 1939. The extraction of bituminous coal, most of which was exported to Italy, rose from 2,000 to 13,000 tons between 1923 and 1938. Annual production of lignite amounted to approximately 23,000 tons.¹³ Chromium ore deposits were exploited at Kukës. The Italians started with the construction of a railroad from the port of Durrës to the deposits of iron and chromium at Pogradec, but did not complete the project.

Aside from extractive industries, nonagrarian production was limited to smaller processing plants, such as dairies, mills, breweries, tanneries, as well as cigarette and soap factories. Small textile plants and various handicrafts were unfavourably affected by Italian competition following the customs union with Italy.¹⁴

The balance of payments

In 1929 exports of agrarian products (hides, cheese, eggs, wool, olives, beans) accounted for 56 percent of total exports. Their share decreased to 44 percent by 1938, mainly because of the introduction of petroleum exports. Prominent among imports were textiles, grains, gasoline, sugar, machinery, and motor vehicles.

Italy was Albania's principal trading partner. However, between 1929 and 1938 her share in total imports declined from 46 to 36 percent, while her share of exports increased from 60 to 68 percent. During the same period the share of imports from Romania and Bulgaria increased significantly. In the export trade Greece occupied the second place and the United States, the main cheese importer, the third.

The balance of trade showed continuous deficits. In 1929 the deficit was 24 m. francs, when 38 percent of imports were covered by exports. The fall in the volume of trade during the depression reduced the deficit to 8 m. in 1934, but since exports declined by more than imports, the export coverage of imports fell to 35 percent. Between 1920 and 1938 the accumulated trade deficit attained 255 m. francs. It was covered in the main by capital imports¹⁵ and by emigrant remittances. Following the Italian capitulation in 1943, a bilateral clearing

¹³ F. DI FENIZIO, "Evoluzione passata...", pp. 503-507.

¹⁴ S. BALLVORA, *op. cit.*, pp. 30, 38, 68.

¹⁵ By 1938 the Italian capital invested in Albania totaled 280 m. francs, a figure

agreement was concluded with Germany, but data on transactions under this agreement are scanty.¹⁶

Conclusions

During the interwar period Albania made the first steps towards overcoming the backwardness which it had inherited from the Ottoman Empire. A stable national currency was introduced and convertibility assured. This permitted the deficit in the balance of trade to be sustained through capital imports and emigrant remittances. Mineral resources began to be exploited, albeit by foreign firms. On the other hand, the tax system continued to favour large landowners, agricultural productivity remained low, and illiteracy was widespread.

which apparently includes non-repatriated profits. B. BARDHOSHI and TH. KARECO, *op. cit.*, p. 10.

¹⁶ Total unsettled claims of the *Albanian National Bank* vis-à-vis Germany at the end of World War II are given at 50.7 m. gold francs. S. BALLVORA, *op. cit.*, p. 36.