AN ECONOMY OF TRUST: CHAINS OF DEBTS AND FAVOURS IN RURAL ISTRIAN BUSINESS RELATIONSHIPS

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Introduction

It was summer and just months before the grape harvest in Istria, Croatia. Danilo, a winemaker, visited his nearby agricultural input supply shop (*agraria*) urgently seeking a spray to combat a common vineyard disease. It was also the middle of the tourist season in this popular vacation destination on the Adriatic coast, increasingly visited for its wine. Prior to World War II, Istria had been part of Italy and was known for its Malvasia and Teran wines. As part of Yugoslavia, the region's wine production increased, due to the introduction of state wineries and the proliferation of small-scale family winemaking. In the early post-socialist period, restrictions on private winemaking were lifted. State wineries were eventually privatized beginning in the early 2000s. With the help of the Istrian Tourist Board and other local institutions, winemaking in the region has grown and been professionalized at a rapid pace, such that in recent years Istria has been likened to Tuscany and other important winemaking regions of Europe. Croatia's EU accession in July 2013 marked the midway point of my two years of doctoral fieldwork in the region, during which time Istrians were adjusting to market and legislative changes that challenged them to change everyday business practices. However, I found that some less than optimal business practices were increasingly being relied upon as coping mechanisms to deal with the rising issue of illiquidity. Many businessmen find themselves in the situation of being in long-term debt to clients, waiting for long-term debts to be repaid, or most often both. The personal nature of so many business transactions, along with the long process of formally pursuing debt collection, contributes to this business environment of debts. In Danilo's trip to the

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agraria, he had not anticipated a long-term debt to arise, but eventually this is what occurred, leading the respective transactors to turn to a debt resolution practice common to the region.

When Danilo earnestly visited the *agraria* that day, he did so without cash, but the *agraria*'s owner Italo gave him the supplies with a verbal assurance of payment in due course because Danilo is a long-term customer and neighbour. Italo was confident that he would be paid because it was the high season for tourism, when he knew that Danilo would be making the bulk of his cash wine sales. Indeed, Danilo expected to run out of wine before the season ended and was worried about how to fill those committed orders. Meanwhile, not spraying the vineyards risked losing an entire harvest in a matter of days. However, in the weeks that followed, events conspired that made paying the *agraria* impossible, Danilo later explained. He wanted to resolve this situation because he needed to maintain a good relationship with Italo to have continued access to inputs. Yes, he could buy supplies elsewhere, but this *agraria* is conveniently located between his home and his vineyards, he explained, and the next nearest one is an inconvenient distance away in a different municipality. Further complicating matters, he said, this is a small community, and it was not worth the risk of developing a bad reputation. The debt was 12,000 kuna, which is approximately two months' salary for many rural residents. In speaking with Italo, they agreed that Danilo would try to 'close the debt'. This is how Danilo explained the situation and how he ultimately resolved it:

> I bought 12,000 kuna of chemicals from an *agraria*, even though I did not have cash, because we were friends, and we agreed that I would pay him when I sold my wine. I sold 2,000 bottles of wine to a *gostione,* which sold my wine but failed to pay me. Thus, I could not pay the *agraria*! Now, I have to find a person who owes the *gostione* who is also a client of the *agraria* who will pay the *agraria* and close the debt. Probably I will not find someone to resolve one hundred percent of the debt, but if I can resolve eighty percent, maybe that will be small enough for the *gostione* to manage to pay me. I have to call my friends and everyone I know and communicate with people to find a solution.

Eventually, Danilo found Marko, a builder who owed the restaurant for various items he had bought second-hand and was also waiting for payment from Italo at the *agraria* for work he had done, decreasing Danilo's debt to a point where it was possible for Danilo to pay the small balance in cash. Locally, they call this debt resolution process *lanac kompenzacija*, or 'chain compensation', so called because businessmen construct a chain of debtors to write off debt. Danilo explained that finding such common clients to close debts is an exercise in using and even broadening his market knowledge, as he must communicate in detail with businessmen in his community about debts and business relationships. The pervasiveness of this system means that the details of the business dealings of Danilo, as of Istrians in general, are not private, but rather circulate through society on an as-needed basis.

Lanac kompenzacija is a common way to resolve debts in Istria's business community. It forms part of a larger system of *kompenzacija* transactions used to resolve long-standing debts that have grown in importance in the context of rising economic precarity in Croatia in general.[2] Using this system, if a businessman can figure out through conversations who owes his debtor and who owes that debtor's debtor, and so on down the line, he can construct a *chain* of debtors. Joining a debt chain allows a businessman to write off the debt of one client by virtue of a second businessman writing off his debt to him. Although the businessman is not paid in cash, he also has one less debt of his own. This means that cash does not necessarily enter into a *lanac kompenzacija* transaction. Once a chain has been constructed and the values of the debts confirmed, all parties circulate a receipt called a *statement of clearance*, and sign, stamp and fax copies down the chain. In Danilo's case he was able to find Marko, who closed the debt chain enough for Danilo to pay the balance. However, it is common for there to be ten or more participants, and for no cash to be involved because the chain balances the various accounts.

Despite its utility, *lanac kompenzacija* is far from the preferred system, and as such is often the topic of debate and lamentations in village cafés. The debt resolution practices prevalent in Istria's business community today have in common the fact that each transaction began with the expectation of cash payment for the goods or services. However, after months pass by, instead of being paid, the increasingly impatient businessman must ultimately request or demand payment from his debtor. Sometimes, as in Danilo's situation, the debtor may initiate the resolution. Nonetheless, regardless of who initiates, the outcome is that the transactors must negotiate new terms because the debtor either lacks the cash or the *will* to fulfil his payment obligation. Of

[2] A second form of debt resolution and trade without monetary compensation is what people in some parts of Istria call *cessione*, which may be described as debt off-setting to a third party who is a friend of both original transactors and assumes the debt as a favour. A third form that is prevalent throughout Croatia is what I call 'hostage *kompenzacija*'. This mode of debt resolution is generally used by large firms in a predatory way to preserve liquidity at the expense of clients who are forced to choose between alternative non-monetary options to resolve outstanding debts after much time has passed and the original goods or services have already been used or sold by the debtor firm. In extreme cases, this latter form may be used to manipulate local market prices of goods to the benefit of larger firms in the same sector. The characteristics of these other debt resolution systems are complex enough to warrant separate articles.

course, these new terms serve the interest of the *debtor*, who is on his way to avoiding paying cash. The owed party, desperate to resolve a debt, often agrees to *lanac kompenzacija* or other *kompenzacija* arrangements. In reflecting on the pervasiveness of *lanac kompenzacija* in Istrian business transactions, a winemaker quipped that, ‘See, Istrians are wizards. We know how to do business without money’.

Initiating *lanac kompenzacija* is not a neutral act. Rather, it is sometimes expressed by informants as feeling uncomfortable, as the mere voicing of needing to be paid can feel like they are revealing they are in such dire financial straits that they are desperate for cash — and by extension, they are admitting to being *bad* businessmen, incapable of managing their own finances. A wife of a winemaker telling such a story said regretfully, ‘It makes him feel like he is less of a man. It is embarrassing for him, but it should be embarrassing to *him* [the debtor], not my husband!’ Indeed, in relaying another debt collection story, one winemaker described feeling *ashamed* for having to approach his debtor. Such expressions reveal the social tensions at play in these business relationships. These debt resolution practices may thus be understood as unsatisfactory coping strategies. Cash is nearly always preferred to non-cash resolutions — at least from the perspective of the person who is owed.

Importantly, a businessman waiting for payment who also owes another firm payment will agree to join the chain at the request of his client as a *favour*. The debts of clients thus initiate a process that is repeated throughout the economy in such a way that diverse business actors find themselves related to one another in new and interesting configurations. New favours and obligations tie these new relations. *Lanac kompenzacija* thus shows us how debts may ultimately create new relationships that extend beyond the initial transactors.

The sociality of debt

As he packed his wine bottles into cartons in his wine-tasting room in a hillside village in northwest Istria, Lorenzo explained that agreeing to *lanac kompenzacija* is a favour because with cash, of course, he can decide to pay employees’ salaries or utility bills, whereas *lanac kompenzacija* simply writes off a debt. Joining helps a client urgently resolve their debt, so the businessman is *choosing* to forego a continued wait that could finally result in a payment in cash. Importantly, Lorenzo and others stressed, someone agreeing to accept or participate in *lanac kompenzacija* is considered *pošten* towards one’s clients — a moral value that encapsulates the characteristics of trustworthiness, honesty, loyalty and being honourable — as participation in such chains contributes to one's reputation as someone who helps others. The pervasiveness of *lanac kompenzacija* has contributed to the emergence of a dense system of favour relationships, and indeed to function well it relies on this density of favour relationships and the widespread acceptance of the practice. Its pervasiveness creates some measure of security in transactions in general, as a businessman knows that, even if a client fails to pay a debt, there are ways of resolving the issue. There are usually more than financial reasons incentivizing the resolution of debts, too, including the desire to continue business with the person in question, but also social reasons because so many businessmen are connected through friends, family and proximity.

I found myself reflecting increasingly on the curious pervasiveness of *lanac kompenzacija* in this business community, as such stories were so often revealed to me in conversations with winemakers and small businessmen about problems they faced and how they were coping with the economic crisis in Europe. In my notebooks, on scraps of paper, on backs of receipts and even on napkins in cafés, the pens in the hands of my informants would draw arrows between these relationships, sums of debts and waiting times, and I would be left with barely legible scrawl to compare against my carefully written notes. I began carrying two pens to interviews, as my informants would so often, in an excited and sometimes somewhat agitated state, suddenly take my pen and notebook from me mid-story to 'clarify' such relationships. I would sit there watching them talk out the chains, drawing arrows back and forth and circling names and numbers in an animated voice, leaving me in awe of the complexity and simultaneous sadness that what we were ultimately discussing was why they were not able to pay for their health insurance, home improvements, winery investments, college for their children or other important life necessities. The questions that captivated me in these conversations were: Why do these businessmen continue to do business with chronic debtors? Should they not simply close the debt and walk away, refuse to go into business with the debtor again and gossip about his bad behaviour in cafés? In this time of restricted liquidity, why would people not be avoiding debt at all costs? I would pose such questions to my informants during their storytelling if I could get a word in edgewise. Their answers made me realize that instead, its regular practice means that debts may actually have social lives of their own. Indeed, *lanac kompenzacija* makes me look at debt differently, to consider its positive qualities. In asking such basic questions, what unfolded was an understanding of how *lanac kompenzacija* shapes relationships in this small business community.

In problematizing the dynamics of *lanac kompenzacija* in Istria, Sneath's (2012) concept of enactions comes to mind. In Mongolian communities, Sneath (2012: 459) describes how gifts and favours may be given in ways that are not sufficiently defined as transactions, but rather are 'enactions of aspects of persons and roles for which the language of obligation and expectation is more appropriate than the idiom of exchange'. Although *lanac kompenzacija* is a transaction in a more traditional sense, with goods with a monetary value being exchanged in a business context, the notion that the *aspect* of persons and their *roles* also have value, and indeed are centrally important, may serve to elucidate *lanac kompenzacija*'s role in society. Here, the decision — and one's suitability — to take part in a transaction is to a great degree informed by a person's qualities and social position in the social landscape of the local economy. In Danilo's situation, Marko had to be willing to step in to fill this very strange position of both owing a restaurant *and* waiting for payment from an *agraria*. Indeed, had I pressed Danilo at the time, it would have been surprising if he could have named an alternative individual to Marko who could fit into such a niche. In all likelihood, it would have taken multiple other businessmen to link two such seemingly disparate businesses. Thus, rather than engaging in a transaction, agreeing to participate in *lanac kompenzacija* may be characterized as an enaction — of one's social relationships, reputation as *pošten*, knowledge of the business relationships of others in the community, and outstanding obligations and favours towards others already in circulation, not to mention a confirmation that one values one's client to the extent that one is willing to accept a sub-optimal resolution voluntarily.

However, the fact that *lanac kompenzacija* is only initiated due to a long-standing debt suggests that the debtor is *un*trustworthy — and worse, that they are not *pošten*. Thus, asserting that debt may build relationships is paradoxical because debt should motivate the owed party to find a way to resolve the debt and then exit the relationship. Instead, I found that business relationships are long-term, even with debtors. Debts are resolved through *lanac kompenzacija* and relationships continue with the same clients — like Danilo, who was again able to buy goods from Italo's *agraria*. From the perspective of my informants, resolving debts through *lanac kompenzacija* allows for the *continuation* of business relationships within a context of restricted liquidity — it is a facilitator. In the process, *lanac kompenzacija* can create even stronger bonds between transacting parties because a favour has been done, extending this new obligation to return the favour into the future. Not only that, but this way of friendly reconciliation seems to soften the frustration of the client waiting for payment. That is, in analysing how *lanac kompenzacija* works in society, one finds that debt may contribute to building relationships instead of destroying them.

Another aspect of enaction here is one's local market knowledge. Again reflecting on Danilo's situation, the type of person who would ultimately fit into Marko's position of connecting these two businesses is not intuitive, but rather relies on the market knowledge of the transactors. In a businessman's research to construct a chain, conversations about debt require a deep understanding of the local and regional market — importantly, who does business with whom and how much, and who is on good terms with whom. Thus, market knowledge is a crucial element in resolving one's debt, and knowledge-bearers are important allies. As a result of intense communication about business relationships over space and time, businessmen learn about the other debts of their clients and other people in their community, as well as the reasons for those debts. This reveals how important it is to be on good terms with one's clients: in a case of chronic debt, transactors must be willing to reveal their business connections. In this way, a businessman's market knowledge signals trustworthiness, as it means that many clients have repeatedly entrusted him with valuable information.

An economy of trust defined by debts

The fact that transactors must be willing to discuss other business relationships of theirs honestly with their clients reveals that *lanac kompenzacija* relies upon businessmen being trustworthy. The process of communicating leads to finding the links to make a chain and people offering favours to join it. This fosters trust and faith, which is paradoxical in the context of a conversation about a long overdue debt. Additionally, through interviews it became apparent that businessmen engaging with clients whose reliability is either unknown or known to be tenuous must have a strong level of trust that, *regardless* of their client's ultimate ability to repay, a debt *will* be resolved. However, such trust did not appear to come from the general institutional environment in which they work, in the sense that issues like the economic downturn, the relative newness of the free market of the West and national corruption scandals were often referenced in conversations about a lack of confidence, or trust, in the market in general. Rather, the businessmen with whom I spoke trust that, in the event of non-payment, debt resolutions are still possible, often explaining such beliefs with the phrases *ćemo se naći* ('We'll figure it out'), or more commonly *snađi se* (similar, but a phrase used to express the ability to make ends meet in a resourceful way), implying that social connections come into play in resolving economic issues. This is precisely because of the pervasiveness of *lanac kompenzacija* and other forms of *kompenzacija*. Although not ideal, as informants would emphasize by reiterating that cash is always preferred, knowing that *kompenzacija* is an (imperfect) option *does* facilitate business transactions. In this way, a practice that one might be quick to characterize as reflecting only deep structural problems — like economic deficiency or continued reliance on informal business practices — may simultaneously be characterized as a stabilizing force. It is through this dichotomy between being reflective of structural problems and potentially creating stability that *lanac kompenzacija* practices shed light on the role of debt in society. Ultimately, *lanac kompenzacija*'s pervasiveness, I suggest, contributes to this economy's strength and resilience. I suggest further that the widespread faith that debts may be resolved through one's reliance on one's community may be conceptualized as an *economy of trust*.[3]

Anthropological research in other contexts has found that in communities reliant upon trust to organize business, the time it takes to cultivate trust between clients at an individual level means that businessmen try to maintain long-term business relationships (see Harriss 2003: 763; Menning 1997: 69). Kirman and Vriend (2000: 51) found through quantitative economic research in the Marseilles fish market, where fishmongers and restauranteurs engage in multiple daily transactions, that 'Both buyers and sellers are better off in loyal trading relationships' when the relationships are assessed over the long-term, in what they term a 'coevolutionary process' (ibid.: 54). A partnership or commitment creates a level of security that can help to weather changing markets (Lorenz 1988: 209). Relatedly, as Harriss (2003: 755) explained, trust is highly personalized in that it develops out of repeated positive interactions that conform to society's norms. In fact, many studies of trust in business suggest that trust and loyalty are reinforced by regularly repeating business transactions (see Kirman and Vriend 2000; Lomnitz and Sheinbaum

[3] The term *economy of trust* has been used and conceptualized by other social scientists in different ways, notably anthropologist Cristina Grasseni (2014) in her work on Italian Solidarity Purchase Groups that bring farmers and consumers together into direct-sales relationships to facilitate trust — for consumers, that they know the origin of their food and that their money is supporting local producers, and for farmers, that they have a secure consumer base. Although I use the term differently in describing Istria's local economy, there may be elements of crossover that could be the subject of future research, such as informal aspects of exchange relationships or types of reciprocal obligations embedded in market exchange, to name just two.

2004; Menning 1997). In a study of French industrial relations, Lorenz (1988: 209) argued that although ‘promoting trust is costly… lack of trust is more costly still’ because it creates market volatility, as well as the burden of checking more thoroughly the trustworthiness of potential clients, which ultimately inhibits everyday business. Such research suggests that trust helps to facilitate transactions. Indeed, even in developed economies the importance of trust in business relationships is emphasized by economists because it ‘presupposes decision-making in a situation of risk’ inherent in exchange that the client will exploit an opportunity to break the contract (ibid.: 197). Thus, trust in another person’s honesty is important in facilitating trade in market economies (Dasgupta 1988: 64; see also Williamson 1993).

However, despite the importance of trust in facilitating business relationships, I found that in Istria it is not sufficient on its own. When speaking with Istrian informants about trust at an individual level, a person’s repeated good behaviour, for example, in being *pošten* or being willing to engage in *lanac kompenzacija* in the past, were referenced when speaking about those with whom they were willing to do business. Here, past behaviour is important in building trust. Gambetta (1988: 234) stresses that, ‘Trust is a peculiar belief predicated not on evidence but on the lack of *contrary* evidence’. Indeed, if one interprets this lack of contrary evidence as suggesting looking at past behaviour, then reputation may be partially incorporated into our understanding of trust. Pagden (1988: 129) points out that trust is always ultimately a belief in that one ‘cannot in fact ever be in possession of sufficient information to *know* that they will not act in entirely unforeseen ways. I *trust* them not to do so. What I have will always be a *belief*’. Going further, Offer (1997: 454) characterizes trust as being similar to a gift in that there is a ‘transfer with the expectation, but no certainty, of reciprocity’. I found that this aspect of uncertainty as inherent in trust is reduced in Istria by the reliance upon one’s character being evaluated as *pošten*, adding an aspect of reputation and recognition of past behaviour to what is otherwise a more general feeling. In these ways, it becomes evident the notion that *pošten* may in fact be an enaction — in business relationships generally, but also specifically when *lanac kompenzacija* comes into play. It positions an individual in the local social system as well as historically, allowing businessmen to make informed decisions. Istrians hold a generalized trust in their community being able to resolve long-term debts through *lanac kompenzacija* or other forms of *kompenzacija*, and trust at an individual level is important for engaging in business, being built through reputation.

Over the course of research, I found that businessmen would do background checks on potential business partners by calling friends, making it clear that one's behaviour would always be watched and evaluated. As a researcher and long-term resident in the community, I was likewise relentlessly assessed through this lens, being asked personal questions to gauge my truth-telling, and tested to see whether I would reveal the business details of others or my opinions about other winemakers. My character was constantly under scrutiny, and my good reputation opened many doors as time progressed. My informants considered such reconnaissance normal behaviour in making business decisions, with one young winemaker explaining over pizza at his home that it was a matter of *protecting* oneself in this market. The questions asked over the course of their background checks were not purely about business behaviour, but about the character of the individual, and so much more knowledge about the person was gathered than simply their business relationships. In other words, reputation was an important component in building trust, where the quality of being *pošten* was a factor in deciding whether or not to do business with someone else.

Reputation has been recognized elsewhere as an important backdrop to the enforcement of contracts, particularly in economies characterized by informal business transactions and in contexts where formal contract enforcement is poor (see Gambetta 1994; Greif 1993; Harriss 2003; J. Humphrey and Schmitz 1998; Lyon and Porter 2009; Murphy 2002; Paine 1967; Platteau 1994; White 1994). In Istria, this intermingling of trust and reputation in business relationships reveals how being *pošten* may be considered integral to the functioning of Istria's economy. As the chain of debtors in any *lanac kompenzacija* resolution usually crosses sectors as diverse as construction, agribusiness and tourism, very quickly one may see how the region's economy becomes tied together in a dense network of relationships defined by debts, favours, obligations, trust and *pošten* behaviour.[4]

Pushing the limits of trust

Until now, I have focused on how trust, being *pošten*, debt and *lanac kompenzacija* interact in relations between small businessmen in Istria. Of course, trust and reputation have a dynamic

[4] In another paper, it might be helpful to adopt Alena Ledeneva's (1998) concept of *economies of favour* in post-socialism to analyse the importance of personalistic relationships in business, as her research in the Russian business context reveals the dynamics involved in using social networks to obtain scarce public resources (see also Ledeneva 2017 and Henig and Makovicky 2017). Although such an environment may also exist in Istria, the concept of an *economy of trust* is more illustrative of how *lanac kompenzacija* transactions and debt shape business relationships.

influence in many economies, debt is pervasive across Croatia, Istrian businessmen do business with those outside of their immediate community, and *lanac kompenzacija* and other *kompenzacija* debt resolution systems may be found elsewhere. As I investigated the workings of *lanac kompenzacija* among Istrian winemakers, I began to realize that, as the social distance between transactors widens, new issues emerge, particularly with reference to the problem of resolving debt. Winemakers lamented that, although *lanac kompenzacija* is important for facilitating business locally, larger companies have been increasingly engaging in the practice as well. It is not simply a problem that larger sums of money are in question, but that *lanac kompenzacija* is increasingly turned to, almost as a given. That is, some informants referred to *lanac kompenzacija* as a strategy employed by these larger companies to avoid paying their debts with cash. As such stories accumulated in my notebooks, it was difficult not to see from their perspective how this *ad hoc* form of debt resolution could feel predatory when it involved a larger, distant corporation.

It was spring 2013, and I was sitting in the administrative office of a winery helping to translate a website with a winemaker, Marino. His bookkeeper Elena was on the phone and would periodically interject in our conversation with work-related comments and questions. She was busy finalizing paperwork for a *lanac kompenzacija* transaction with their largest buyer, a nation-wide supermarket called Sunsa. Marino had been waiting for Sunsa to pay him for his wine sold in 2012, with receipts totalling 96,000 kuna (or approximately €12,600). Although Marino had called Sunsa's headquarters in Zagreb many times, each time being told he was on the priority list to be paid, Marino had yet to receive a single payment. He was reluctant to continue sending his wine to the supermarket until this debt was resolved, but also did not want to lose his largest client, as it would be difficult to find another supermarket to buy his wine and even more difficult to find multiple smaller buyers to take care of the same volume. It is hard work to get a contract with a large supermarket chain, so it is not something one wants to put in jeopardy. Eventually, Marino proposed to Sunsa's accountant they arrange *lanac kompenzacija*, believing this was the only way he was going to resolve this debt.

After being advised by other bookkeepers she knows about potential avenues to resolve this, using her own knowledge of the industry and through long conversations with various people in Sunsa's accounting office, Elena was able to learn that Sunsa was waiting for the state to pay it 69,000 kuna in bottle recycling *rebates*. This was fortuitous, Elena explained, because Marino owed the state 66,000 kuna in bottle *taxes*. Thus, in order to avoid paying cash to Sunsa, the state bottle tax office agreed to write off 66,000 kuna of Marino's debt to it in return for Sunsa writing off 66,000 kuna of the state's debt. Sunsa was left owing Marino just 30,000 kuna of the original amount, and its bookkeeper in charge of Marino's account agreed to pay in cash in instalments.

Figure 1. *Lanac kompenzacija* with a supermarket (Sunsa)

Sunsa	owes 96,000 kuna to	Marino
Marino	owes 66,000 kuna to	state office
State office	owes 69,000 kuna to	Sunsa

As Elena later explained, it was still possible that this 30,000 kuna would take time to resolve, and indeed it was possible that Sunsa would only pay one of the multiple instalments, again allow the debt to lapse, and leave Marino to create yet another *lanac kompenzacija* or agree to take goods, for example, in lieu of cash payment.[5] In an exasperated tone, Elena also pointed out that, according to the contract with Sunsa, resolving a debt through *lanac kompenzacija* incurs a three percent charge on the value of the resolved debt. I immediately asked if it depended on who initiated it, as this seemed unfair because Sunsa was the one delaying payment. She got out the documentation and pointed to the line in the contract to show me that, regardless of who initiates it, that it was the client (the winemaker) who would pay.

I began to realize that, given this allocation of costs and liabilities, it indeed felt as if it was in the interest of the debtor to delay payment, as it would allow them to retain more liquidity and use that money for other debts or investments. Moreover, if the debt lasted long enough for their client to become desperate, they could *earn* three percent on the transaction! As I sat back and processed this state of affairs, Elena resumed printing and faxing the statement of clearance to resolve the debt. Later, she turned to her large bookshelf and took out a massive three-inch binder ominously labelled by hand in bold capitals in black ink: '*KOMPENZACIJA*, 2013'. My eyes fixed on the bookshelf to dwell on the number of binders. 'Croatians love bureaucracy', I sarcastically told myself in an effort to minimize my own shock, but it was hard not to wonder

[5] This is a different form of *kompenzacija*, to be elaborated upon elsewhere.

how much of their total business consisted of these types of debt resolution schemes.[6] Did cash *ever* materialize in this economy, I fatalistically wondered?

Through conversations with businessmen who had worked in state firms in Yugoslavia, I began to uncover some interesting truths about *lanac kompenzacija*. One such insight was that the system is reminiscent of what was locally called 'passing the bill' (in Croatian, *prolaziti račun*) in the Yugoslav era in that it connects firms on an *ad hoc* basis to solve liquidity problems.[7] This is important because it is in part the familiarity with such *kompenzacija* schemes that lends its usage legitimacy in contexts where it may not be entirely legitimate. In *lanac kompenzacija*, however, the goal is to write off as many debts as possible. Everyone who agrees to be part of the transaction wants to decrease or erase their debt. This is not the typical debt off-setting prevalent in early post-socialist transition Russia that is characterized as barter, where goods would change hands until they reached a firm that could use them, or other goods the firm needed circled to return to the original sender (Humphrey 2000: 77). Humphrey (2000: 77-8) details how barter chains worked in early transition Russia in order for businesses to acquire the goods they needed for production without using precious and scarce cash. Although ultimately they may look similar because of the chains created, such chains diverge from *lanac kompenzacija* because the chains were devised before the transactions began. The same is true in the 'economy of arrears' described by Ledeneva (2006: 119), where companies were already in debt chains due to the highly vertically integrated nature of the Soviet economy. In the various debt-offsetting practices prevalent in Croatia today, the assumption at the beginning of the transaction was that cash payment would be made, and then, when it is not, businessmen must undertake a *search* to construct a chain, using their social networks and market knowledge. Another obvious but important difference is that Croatia is no longer in a state of turbulent transition. In the early post-socialist period, the impetus for alternative modes of debt resolution and off-setting were the instability of currencies and the unavailability of goods. Today, such

[6] I asked some informants to estimate the percentage of business conducted through various forms of *kompenzacija*, but the numbers were wide-ranging between businesses, varied from year to year, and were impossible to verify. Some informants said they refused to ever resolve debts this way, while others asserted large percentages.

[7] *Prolaziti račun* was a system between state firms that the directors would arrange before mandatory financial reporting to create a chain of firms with the profitable firms lending money to others in their area that were loss-making, together creating an informal financial repayment plan that included favours in buying or trading one another's goods after the reporting period had passed. These inter-firm favours led to a tightly interdependent local economy that cultivated both loyalty and trust between management, as working together in this way helped them to avoid state intervention and saved the jobs of the directors of otherwise economically faltering firms.

issues do not exist. Thus, we must be more critical in asking why *lanac kompenzacija* is employed as a strategy.

Although *lanac kompenzacija* is a widespread phenomenon, and its use by large firms is not specific to supermarkets, as supermarkets tend to buy huge quantities of products at once, the effect of their non-payment is felt strongly by Istrian agri-food producers like winemakers. This is discouraging to these producers, as some informants explained that the reason they had pursued business with Sunsa was because they were weary of the business practices employed by other large national supermarkets that were even more cumbersome. Many Istrian businessmen explained that, at the beginning of the relationship with supermarkets, the client tends to pay on time. It is only as one's reliance on them grows that they begin to delay payments more regularly. When replicated throughout the economy, these large companies are essentially using their vast client base to write off debts, rather than pay debts with cash. Although Sunsa's contracts give it ninety days to pay its bills, practically speaking some Istrian businessmen say they have waited for over a year. Over the years, Sunsa's payment delays have grown longer, despite the company's growth. One winemaker explained that, 'I call, beg, and they say I am on their priority list, and then again I hear nothing for weeks'. Eventually, these clients become desperate and again agree to revised payment terms. Here again, *lanac kompenzacija* becomes yet another way of maintaining one's liquidity. In short, from the perspective of small businessmen, Sunsa has adopted a local *ad hoc* practice and turned it into a strategy to conserve its liquidity. Theoretically, through the circulation of receipts through statements of clearance, Sunsa can cancel its debts without taking cash out of its account, thus reserving this cash for investments.

The inevitability of debt and *lanac kompenzacija*

Stories about debt and *lanac kompenzacija* made me increasingly interested in the institutional environment that seemed to be passively encouraging the persistence of these issues. How is it possible that large supermarkets can go so many months without paying their clients? One might anticipate that in a recession businessmen would resort to any means necessary, including legal measures, to collect outstanding debts. Instead, Istrian businessmen often explain that pursuing the resolution of debts through formal bureaucratic processes is the *least* desirable option in terms of both its social and its business repercussions. The circulation of stories — either authentic or exaggerated — about costly, protracted and unsatisfactory court processes dissuade businessmen from pursuing debt resolution through the courts. One restauranteur explained that a court decision does not guarantee payment of a debt because, if the debtor is truly bankrupt, the court may only block his bank accounts, and the client will have lost time and money on legal fees without necessarily being reimbursed for the debt, giving a lengthy example of his personal experience to illustrate his point. Other informants also asserted that it was possible that during the process of blocking the debtor's accounts, which required the businessman to notarize receipts and file them through a lawyer – who must send a notification of a claim being filed to the debtor – that there is time for the debtor to move money to avoid repayment before the account is actually blocked. The consequences of pursuing debts through legal means also include spoiling relationships with other businesses in one's community — other existing clients, potential clients, or clients of clients. Referring to large clients like Sunsa, one winemaker said, 'You must remember who you are fighting here', in that the feeling was that there was no way a small businessman could win a legal battle against a large, nation-wide corporation, whether or not this is true in practice.

This made me dwell on the power of the stories themselves. I realized through such conversations that first-, second- and third-hand accounts, not to mention basic perceptions about the legal process, were themselves enough to deter the pursuit of debts through formal legal routes. This, I surmised, underlies the seemingly pervasive belief that coming to a cooperative agreement is *always* preferable to cutting ties. The belief that legal measures do not guarantee a just outcome is compounded by the experience of the social and business consequences of pursuing debts through the courts, which creates friction with other related businessmen or people in one's social network. As one winemaker explained in a conversation about debt, this occurs because once legal processes get underway, the debtor's account is blocked such that no one else may be paid and the debtor cannot continue doing business. This has a ripple effect that implicates the businessman pursuing the debt in now influencing other peoples' business dealings. As a result, some informants said that, as a courtesy to their debtor clients, they would inform them of their intent to pursue the blocking of their accounts before actually doing so as a sort of threat in the hope that it would spur payment.[8] Thus, at least during my years of

[8] The veracity of such statements could not be confirmed, and indeed, were a businessman to do such a thing as forewarn their debtor client and then actually pursue blocking the account, it would seem all the more likely that the

researching and residing in Istria (2012-2017) in the midst of the protracted economic crisis that was plaguing Europe, there was a great incentive to resolve debts privately.

I was sitting late one evening at a village café with Italo, a young farmer in a village near my own. His family is known in the area for being diligent farmers of a large territory of field crops and for having good, long-term relationships with winemakers who buy the family's grapes in large volumes. His face beet red from months under the sun, Italo explained to me over drinks that it is 'impossible' to escape debtors, and impossible to escape *lanac kompenzacija*. He began to gesture in the air to visualize how all companies are ultimately linked to each other. To his mind, all large businesses have debts and engage at least to some extent in *lanac kompenzacija*. On this basis, he began explaining that some small businesses *must* do business with larger ones due to the simple fact that there is not a great deal of choice in such a small economy, and so, if you do business with these smaller businesses who do business with large companies, you will unavoidably enter into debt relationships, as they are all somehow linked in a 'chain' anyway. This revealed another interesting truth about *lanac kompenzacija*: its pervasiveness locally makes it feel like an *inevitability* of doing business, normalizing its practice and adding to its power in society. Just as *lanac kompenzacija* appears similar in form to 'passing the bill' in socialist Yugoslavia, creating a feeling of familiarity, this feeling of inevitability likewise makes *lanac kompenzacija* feel legitimate in contexts where it objectively may not be so. If, like Italo, most businessmen in Istria were conceptualizing the economy as a closed system containing large firms that use *lanac kompenzacija* to avoid paying cash, I could indeed understand why it would feel like debt and *lanac kompenzacija* were inevitabilities. In listening to such stories — from experiences with Sunsa and various other large companies to visualized schematics of the structure of the economy — I would reflect on the implications for trust. Trust in institutions shaping the economy and legal environment, trust in specific clients and trust in the market all seemed to hinge on perceptions formed from negative first-hand experiences or hearsay about dramatic failures in one of these fields.

However, I also began to realize that these stories of legal problems and feelings of inevitability seemed to encourage — or at least justify — the informalization of business transactions from the outset. In other words, what good is a formal contract if the parties both

debtor would have used this intervening period to empty his accounts, as informants asserted would occur. Thus, such statements should be met with a degree of scepticism.

perceive there to be no institutional enforcement mechanism anyway and will have to resort to alternative forms of debt resolution? Indeed, many businessmen in this community engage in semi-formal or informal business practices in some part of their lives, whether it is getting a car fixed by a mechanic, buying or trading for inputs or resolving temporary farm labour salaries through in-kind payments. In such transactions, trust and being *pošten* rise yet further in importance, as there is absolutely no formal fall-back measure to enforce payment.

Conclusion: echoes of informality

Thus, although *lanac kompenzacija* creates an economy of trust based on the enactions of individuals' characteristics of trustworthiness, being *pošten*, market knowledge and social connections, when adopted by companies further afield the same practice challenges Istrians to reconcile their conceptualizations of it as an *ad hoc* necessity locally with the feeling that, when it is used for larger transactions with companies like supermarkets, it is predatory or strategic. The examples above reveal how locally debts resolved through *lanac kompenzacija* create new favour obligations between participants, add to one's reputation as a *pošten* individual and facilitate the continuation of important business relationships. However, when more socially distant actors appear in the matrix of *lanac kompenzacija*, different issues emerge. In Istria's economy of trust, debt has a social life, and *lanac kompenzacija* brings such relationships to light. Its practice additionally highlights the power of the institutions, perceptions and narratives of others in guiding peoples' economic behaviour.

Understanding the complexities of *lanac kompenzacija* now, we can go back briefly to my own introduction to the phenomenon to situate it in a broader context of what it is not, why this is important for our understanding of its persistence in the economy, and how Istrians make sense of it themselves. When I first learned the term *kompenzacija*, and before I could figure out how to spell it, informants would explain it to me by way of referencing *baratto*, which is Italian for *barter*. Although there are many forms of *kompenzacija*, and although I have dealt here with only a specific form of debt off-setting that does not include the transfer of goods in the chain, Istrians conceptually lump all the various forms of *kompenzacija* into this single category of *baratto* and use the word *kompenzacija* to refer to multiple forms of it. This created a great deal of misunderstanding between myself and my informants at the start, as I was unaware of their transitions from explaining one form to another. I began to categorize the examples myself for clarity so that I could go back and ask more pointed questions of my informants, returning with their scribbles in my notebooks to point out the ambiguities that I only realized after such interviews. However, over time I began to notice that grouping such diverse transactions under the single vague rubric of *baratto* was a problem for them as well, but for more serious reasons.

Barter, at least in its most basic conceptualization, is defined as a *coincidence of wants* between two transactors who come together and negotiate freely over one another's goods. Anthropologists have spent a great deal of time researching barter in various contexts, mostly in the field of informal exchange, to reveal the complexities of such exchange relationships. Some aspects of barter were indeed echoed through conversations about *lanac kompenzacija*. For example, Humphrey (1992:107) problematized the idea that barter is a voluntary, 'ungoverned agreement between individuals'. Cellarius (2000: 75) found in Bulgaria that fairness in negotiations was important for establishing one's *reputation* as *trustworthy*. In northeast Nepal, Humphrey (1992: 107-8) found that barter may engender its own *morality* because of the social rules of fairness and *trust*, where mutual dependence kept parties from cheating (ibid.: 123). Humphrey and Hugh-Jones (1992: 8-9) revealed how such mutual dependence may even lead to the development of barter *networks*. Moreover, Humphrey (2000: 72) found 'debt chains' in Russia that were made up of barter relations, showing how debts may travel distances and last years, and that members of these chains may 'constantly reconstitute [themselves] from the people they know ('partners')' and *create* social relations. Finally, Ferraro (2004: 89) has shown how debt and guilt intermingle, as debts may be imbued with moral obligations.

However, *lanac kompenzacija* is not barter, and nor are the other *kompenzacija* forms I found in the region. In all cases, the transaction agreement was entered into under the assumption that cash would be paid. The revised debt resolution only emerges when the debtor refuses to pay this cash and the creditor must agree to new terms in order to be compensated. That said, many of the same themes elucidated by anthropological research on barter elsewhere are echoed in narratives surrounding *lanac kompenzacija*, including power, trust, mutual dependence, morality, networks, whether voluntary or coerced, social rules, and so on. In these ways I could see why Istrians would make this leap to calling *kompenzacija baratto*.

But this is also dangerous. *Lanac kompenzacija* is somewhat involuntary, does not involve the exchange of goods, and the transaction is rooted within the monetary economy. The fact that Istrians conceptualize it as *baratto*, however, obfuscates its actual impetus of usage, *normalizes* it by associating it with another common practice in villages like the simple trading of vegetables for fruit or labour, and in doing so again feeds into this feeling that it is an acceptable practice, all the while in the context of informants lamenting how *lanac kompenzacija* deprives them of liquidity and costs them time and energy. When speaking with businessmen about a recent *lanac kompenzacija* arrangement and their dissatisfaction with it, they would sometimes incorporate narratives about how it is a common practice and like barter, as if this justified their debtor's behaviour.

Finally, informants would complicate matters by sometimes characterizing this practice as somehow unofficial, leading to discussions about informal business practices in general and how this hurts the economy and increases their own economic precarity. This initially sent me down a research rabbit hole of linking *lanac kompenzacija* to informal business practices, until I realized that the link to informality was simply that other *kompenzacija* practices are more prevalent between neighbours in informal exchanges. However, in *lanac kompenzacija* receipts are involved, and even state institutions like the state tax office. Such obfuscations in informants' own narratives about *lanac kompenzacija* reveal its power in society. Its perceived inevitability indeed makes it inevitable. Its structural similarity with past modes of debt resolutions between state firms makes it familiar. Its conceptual linkage to *baratto* obfuscates the motivations for businesses like Sunsa to use it. The circulation of debt narratives informs people's perceptions about how their economy works, simultaneously denying them agency in changing their local economy by throwing up their hands to this inevitability, to which they also contribute. Although they recognize that it is outside *normal* economic practice in *normal* economies, they normalize it in their own. Thus, unpacking the role of *lanac kompenzacija* in Istria's business community unravels more complicated processes that are underway in this region's transition to a market economy. It reveals how new relationships of obligations and favours arise from debt, how the characteristics of individuals become enactions that have local market value, and how an economy of trust may simultaneously offer a level of security in times of economic flux and contribute to economic insecurity in other ways. It is in this field of ambiguity that Istrians find themselves in the everyday of doing business nearly three decades after the fall of socialism.

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